

'19



TOWARDS SUSTAINABLE ENERGY

ANNUAL REPORT

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Message from the Chair and CEO



Conrado Navarro
Chairman

I am honoured to present our company's annual report for 2019.

Even though this report analyses what happened in 2019, I believe that I should refer to the unprecedented and difficult situation in which we are immersed, a far-reaching social and health crisis caused by the COVID-19 virus, which affects the whole of humanity and which was declared a pandemic by the World Health Organisation on 11 March 2020. The Spanish Government then declared the State of Alarm in its Royal Decree 463/2020 of 14 March.

Given this crisis situation, the **Nortegas** team, with the full support of all the shareholders and of the Board of Directors, acted immediately and took measures in keeping with the essential public service for society that characterises our activity. These measures focus on three points of action: I) guaranteeing the continuity of the supply by operating and maintaining our infrastructures in perfect running order, II) executing all the work while ensuring the health and safety conditions for our

employees, contractors and customers, and III) contributing to minimising the impact that this health crisis is going to have on the economic fabric of the regions where we operate.

It is only fair to recognise the magnificent and generous response of all the members of the **Nortegas** team, both the workers performing their tasks directly at the facilities, in the field, and those under lockdown at homes working remotely.

I must also mention the outstanding willingness and cooperation of all the stakeholders, authorities, social and economic agents, companies, customers, etc., to face and overcome this serious crisis together.

The company is in constant contact with all the local and regional authorities, following the set guidelines and addressing as diligently as possible the needs that emerge in the distribution of natural gas and the supply of LPG.

We are therefore sure that, with everyone pulling together, we will successfully overcome this great crisis and, with the measures that we are adopting, we will contribute to a speedy social and economic recovery.

At the start of 2019, pursuant to Legislative Royal Decree (RDL) 1/2019, the Ministry of the Ecological Transition transferred a series of powers to the CNMC regarding the regulation of the energy sector. The latter published thirteen draft circulars, one of which was specific to regulate natural gas distribution tariffs for the 2021-2026 period.

The public hearing procedure in the aforementioned circular, given its particular relevance and impact for Nortegas, was one of the priorities of the company's management team throughout the year and until the final publication of CNMC Circular 4/2020, published in the BOE (Spanish Official Gazette) on 3 April 2020.

Therefore, 2019 can be said to have been a key year when **Nortegas** continued on the path of growth of previous years

and consolidated our position as the second natural gas distributor in Spain. On the other hand, we started a strategic reflection, which ended in the first quarter 2020, and which allowed us to lay the foundations for the company to evolve its business model to face future challenges.

We believe, as indicated by the analyses and market forecasts up to 2050 of the main international institutions, that there is a great need for energy infrastructures that can support a more sustainable economic growth model. And we also believe that natural gas, both in its conventional and renewable forms, must be part of a sustainable energy mix that, in combination with other energy sources, contributes to an effective decarbonisation strategy.

That opinion is also shared by our investors and shareholders, who consider **Nortegas** to be a company that must play a key role in the energy transition that our company is facing and, therefore, in the development of the future energy model.

During the last year, the Board of Directors backed the strategic vision for **Nortegas** proposed by the management team: an infrastructure company, fully committed to the energy transition and with a broad spectrum management model that meets the most demanding non-financial and financial requirements and always from a good governance, social and environmental (ESG) approach.

In that regard, the sustainable growth strategy that we approved during the Board Meeting in March 2020, was the outcome of the intensive work and reflection of the whole **Nortegas** executive team and of the vision that our shareholders and investors have told us during the last year. This strategy will allow us to optimise the value created by Nortegas for our shareholders, our customers and users, our professionals and society overall.

Nortegas has all the necessary capabilities to implement it. The company's executive team has extensive experience in

“Nortegas has all the necessary capabilities to implement it”

the sector and great technical knowledge; our company is recognised on the market for the quality of our service with a widely consolidated position; and we have the necessary resources to make the investment needed to ensure the successful execution of our Strategic Plan.

I would now like to refer to three special circumstances at the present time and which impact Nortegas's operations. In the energy context, the Government has recently unveiled the draft Climate Change and Energy Transition Act (LCCTE) and with the publication of the circular on the natural gas distribution tariffs, the regulatory framework has been established for the 2021-26 period. In addition, the longed-for end to the COVID-19 crisis, and the ensuing recovery, is going to require a great effort by all companies to overcome its effects.

At this key time, and in a constantly changing environment, an organisational change has been designed and implemented to address our challenges and execute our

Strategic Plan, under the leadership of our CEO, Javier Contreras. I will now pass over to him to explain in greater detail and depth the management and results of the company in 2019, along with the strategic approach for the years to come.

And let me end by thanking the shareholders, the members of the Board of Directors, the Management Team and all **Nortegas** Employees for their permanent support, their commitment and their dedication to ensuring the success of this greater company which is the sum of different centenarian companies from the three autonomous regions where we operate: Principality of Asturias, Cantabria and the Basque Country.

Conrado Navarro

April 2020.



Javier Contreras
CEO

Beyond the milestones outlined by our Chairman, and in particular the designing and preparing our Strategic Plan for the coming years, which I will discuss in more detail, 2019 was a transition period for Nortegas.

Our human team has not only properly managed the company's operations, but also the priorities that emerged on the different fronts, including the regulatory ones. It has once again demonstrated its professionalism, versatility, ability to innovate and long-term commitment to our stakeholders.

This effective management has allowed us to consolidate the growth that began in 2017, which has meant that over 17,000 households and companies now have access to natural gas for the first time, a clean and affordable source of energy and part of the energy transition. Nortegas has brought 35,000 metres of new networks and infrastructures into service thanks to our investment effort. This has increased our customer base to over 1,035,000 and our

EBITDA by 3.4% to €177.5 million, bringing our total income to €222.7 million.

Our commitment to ensuring the health and safety of our employees and associates are reflected in last year's accident rates, which are in keeping with the sector's benchmarks. Thus, the 2019 Severity Rate improved 43% on 2018 and, as of the date of publishing this report, no accident with sick leave had been recorded in the last 224 days. Positive figures that must encourage us to maintain our high health and safety standards and not to lower our guard.

Equally important is the confirmation, by Standard & Poor's, of the investment grade credit rating, with stable outlook, for the Nortegas debt issues on the international capital markets, which is proof of our commitment to the financial robustness and sustainability of the company.

I would also like to stress our firm commitment to the developing innovation initiatives and private-public

“I would also like to stress our firm commitment to the developing innovation initiatives and private-public partnership”

partnership in order to implement projects that consolidate the Nortegas role in the framework of the energy transition, and which will undoubtedly contribute to establishing a robust platform for growth and diversification in the medium and long term.

That is the case, for example, of the two initiatives underway as the result of the statement of intentions signed with the Basque Energy Board (EVE) in July. On the one hand, a pilot project has been launched at Ugao-Miraballes (Bizkaia). It involves installing a smart distribution network, which will not only allow the necessary digitalisation of the relationship with the customer, but, most especially, will notably increase safety and efficiency levels as well. On the other hand, projects are being run to produce biomethane generated using urban waste to be injected in the Nortegas distribution network. Once the necessary regulatory framework has been developed, this will allow us to enter a new market segment with a high potential for growth and perfectly aligned with the decarbonisation targets

set in the 2030 Agenda. In fact, energy production using waste has a lower impact on climate change as it is a carbon-neutral source in terms of its whole life cycle and, furthermore, it mitigates the emissions produced by burning waste under a circular economy model.

This has all gone hand in hand with the consolidation and improvement of our internal processes and our governance as a company in all the key management areas: including managing people and subcontractors, the safety of our professionals and communities, innovation, optimising efficiency, corporate governance and compliance, or risk management.

We are in a highly dynamic environment where many sectors, even those longer established ones and with more mature business models, are facing potentially disruptive changes to their respective industries. Our sector is not exempt from this reality and, in our case, we are facing a series of trends that are imposing the need to adapt and evolve our business model.

I am referring to, for example, the new energy distributed generation models; the digitalisation of our operations and of our relationship with the customer, which can make the networks smarter, more efficient and safer; stricter environmental regulations and impact on climate change; or an accelerated innovation process that allows the shift to new energy sources that are increasingly more competitive and with more commercial applications.

In view of this situation, and after a stimulating period of joint reflection between the company's board of directors and the management team, we have designed a new Strategic Plan for the period between 2020 and 2027. Based on our capabilities as a team, this plan includes a new view of the role of Nortegas in the framework of the energy transition that our company will be addressing during the coming two decades.

In this sense, our growth strategy sustainable has as a strategic objective ensures the long-term value of our

networks and infrastructures, essential assets in a balanced energy model, sustainable and respectful with the environment.. And it is based on the following focal points of action:

- **Ensuring** access to a cleaner and more affordable energy supply for more households and companies by means of extending our network.
- **Helping** to reduce the polluting impact, by showcasing ourselves as an alternative to more carbon intensive fuels. This includes, for example, exploiting the opportunity offered from replacing diesel boilers in households and companies or developing the vehicular natural gas market.
- **Innovating** in cleaner and sustainable energy sources, such as biomethane and hydrogen, and support the ecological transformation of the sector in conjunction with other key social stakeholders, such as public entities, marketers, research centres and other knowledge institutions.

- **Guaranteeing** the safety of our processes and solutions, both for ourselves and for the users and communities who we serve, with the focus on prevention and anticipation, but with the necessary capabilities and protocols to efficiently respond if necessary.
- **Ensuring** an effective and dynamic decision-making process by means of the appropriate composition and structure of our governing bodies and the defining and review of internal processes.
- **Fostering** the role of people and our teams as the basis that makes everything to be possible.

In short, and this is our higher purpose, ensuring that we are generating a positive impact on society.

This report provides our stakeholders with extensive information on our management and targets with respect to each of those cornerstones and we describe all the areas in which we are working. I would like to particularly stress

here those that are more related to people. That is where, we are convinced, the key lies to be able to successfully execute our strategy.

We want to redefine our identity as a company in this business climate and the new cycle of the strategy. Therefore, we have reviewed our mission, our vision and our values, critical elements to involve and engage our teams with the project of the company we want to become. In fact, professionals, and particularly the new generations that are joining the job market, increasingly appreciate that the organisations where they work have a clear purpose and aligned with a social role. We want our current and potential professionals to be clear about the contribution we are making as a company to the development of society. That is the only way that we will be able to recruit, retain and get onboard the best talent.

We have reviewed our organisational structure to be in better shape to implement the new strategy. These changes include appointing senior executives for the new

“We want to redefine our identity as a company in this business climate and the new cycle of the strategy”

vehicular natural gas and innovation & renewable gases business areas, which will ensure the new strategic lines have the necessary resources to ensure their growth and contribute to the value of the company.

Our vision of Nortegas is that of an open organisation. We believe in the value of collaboration and we are firmly convinced that the frontiers of our organisation stretch far beyond its corporate, legal and geographical limits. In 2019, we therefore strengthened our relationship with academic institutions such as the Bilbao School of Engineering or deploying Dual Vocational Training initiatives where students from schools in the autonomous regions where we operate complete their work experience at our operations. These initiatives allow us to access the talent and knowledge outside our organisation, generate development opportunities for young people and, in short, to crystallise the shared value that we generate for society.

I would particularly like to thank the Nortegas shareholders for their support during the last year, and for their vision, shared with the company's management team, of the role that we must play in the energy transition. That has been decisive to conclude the Strategic Plan that will govern our policy during the years to come.

And, finally, I cannot end this letter without thanking all our employees and associates for their commitment, professionalism and dedication. They are and will be the real driving force of the transformation of our company to contribute to a more sustainable, efficient and cleaner energy model to benefit society to which we are fully committed.

Javier Contreras

April 2020.

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Main figures

MAIN FIGURES



FINANCIAL

FIGURES

2019 ordinary income: €222.7 million

2019 investment made: €26.6 million

Investment in R&D/sales: 3.2%

SOCIAL

FIGURES

Employees: 236

Permanent contracts: 100%

Frequency index (own employees and subcontractors): 0.3

TECHNICAL

FIGURES

Supply points: 1,035,065

Network kilometres: 8,241 Km

Distributed energy (GWh): 31,967

Customer satisfaction index: 7.4

Drop in the number of emergency calls: 12.7%.

ENVIRONMENTAL

FIGURES

CO₂ emissions (Scope 1, 2 and 3): 9,549 tCO₂e

3



About Nortegas:
experts in gas infrastructures

ABOUT NORTEGAS: EXPERTS IN GAS INFRASTRUCTURES

“Nortegas is the second gas distribution operator on the Spanish market. It operates in the Basque Country, Asturias and Cantabria, where its distribution networks cover 8,241 kilometres and it has 1,035,062 supply points.”

Nortegas is the **second gas distribution operator on the Spanish market**. It operates in the **Basque Country, Asturias and Cantabria**, where its distribution networks cover 8,241 kilometres and it has 1,035,062 supply points.

The company's operations are, mainly, focused on the management of natural gas and liquefied petroleum gas (LPG) assets on the regulated distribution market, along with the supply of LPG.

In the natural gas distribution business, **Nortegas** interacts with the retailers, who use the **Nortegas** network to supply the end users. In the LPG business, where **Nortegas** is also the supplier, the company directly works with the end users.

On the other hand, as is described more extensively in the Strategy Chapter of this report, **Nortegas** is developing its position in other non-regulated market niches, such as biomethane production or the associated services.

NATURAL GAS

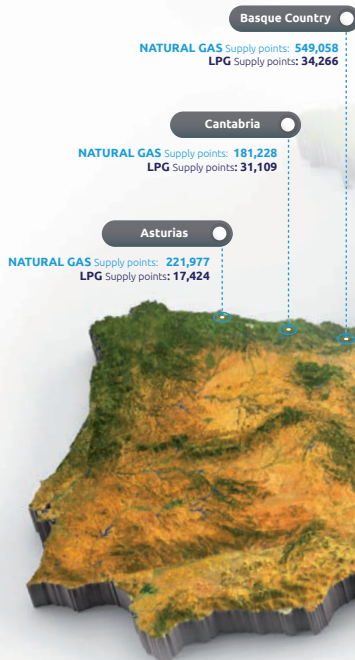
2019 INCOME: **198.5 M€**

2019 INVESTMENTS: **24.6 M€**

LIQUEFIED PETROLEUM GAS (LPG)

2019 INCOME: **24.2 M€**

2019 INVESTMENTS: **1.9 M€**



Activity and position of Nortegas in the value chain



Activity and position of Nortegas in the value chain

Household and industrial uses can be diverse both on the **natural gas** and on the **LPG** markets.



HOUSEHOLD USE

For **cooking, heating**
and **hot water**

INDUSTRIAL USE

ELECTRICITY GENERATED

Using **gas** or
combined cycle turbines

VEHICLES

Fuel for **VEHICLES**,
particularly **public transport**

MISSION, VISION, PURPOSE AND VALUES



MISSION

Our **team**, with the utmost commitment to **ethics** and **general interest**, strives to provide a platform of innovative and competitive energy solutions, prioritising **safety** and **excellence** to boost our customers' **confidence** and for their continued support to advance towards a sustainable **society**.

VISION

We bring our experience in **infrastructure** and **energy solutions** to progress towards a **decarbonised economy** and **are committed to collaborate** in this common challenge through dynamism, a zeal for self-improvement, **to create shared value** for society.

PURPOSE

Be an agent of change in the path **towards a more sustainable world**, putting our experience in energy solutions at the service of the present and future well-being of society and the territories that surrounds us.

MISSION, VISION, PURPOSE AND VALUES

VALUES

INNOVATION > CUSTOMER-CENTRIC > TRANSPARENCY > RESPONSIBILITY > SUSTAINABILITY



INNOVATION

We evolve: we are versatile and open and we drive change.

We share our experience and knowledge and learn from those who we share projects with.



CUSTOMER-CENTRIC

We are nonconformists: we are committed to satisfying our clients and obtaining results, striving to better ourselves daily.

We anticipate the needs of our clients, taking an executive approach to problem-solving and offering them a safe and quality service.

TRANSPARENCY

We engage in a dialogue with our stakeholders to understand their expectations and build relationships of trust.

We are clear, close and accessible.

MISSION, VISION, PURPOSE AND VALUES

VALUES

INNOVATION > CUSTOMER-CENTRIC > TRANSPARENCY > RESPONSIBILITY > SUSTAINABILITY



RESPONSIBILITY

We prioritize security and are consistent with our decisions, which are guided by integrity and equality.

We want our activity to help our team and environment progress, so that our success reverts in their development.

SUSTAINABILITY

We are moving forward to promote affordable and environmentally friendly energy solutions.

We work to create long-term value for all of our stakeholders, as we are convinced that this is the way forward.

THE CORNERSTONES OF OUR BUSINESS

Given the activities and markets in which it operates, **Nortegas** has identified a series of critical factors that determine its capacity to generate shared value for the company itself and the stakeholders with whom it has a relationship.

Consequently, the **Nortegas** strategy, described in Chapter 6, is aimed at developing competitive advantages in the management of each of those factors, along with responding to current trends.

Within this model, **Nortegas** has also identified the following key stakeholders:

- **Investors and shareholders:** the **Nortegas** business implies investing specifically aimed at developing the network and innovation. Therefore, having the stable support of partners providing capital and financial resources is fundamental.
- **Public Administration and Regulators:** natural gas distribution is strategic for local socio-economic development and there is therefore a two-way relationship with the authorities. On the one hand, the energy market is highly regulated and there is growing environmental legislation in that regard. On the other hand, given the highly technical nature of the distribution activity, **Nortegas** plays an advisory and consultancy role with the administrations and regulators.
- **Customers and users:** the common thread in the relationship with the different **Nortegas** customer profiles,

associated to its two main businesses (natural gas distribution, and LPG distribution and supply), is ensuring the quality energy supply and without incidents.

- **Professionals:** knowledge of the market, its regulation and available technologies is key and is down to the **Nortegas** professionals. Therefore, the ability to attract, retain and motivate the team determines the company's productivity and growth.
- **Local communities:** minimising negative impacts and interrelation strategies with their stakeholders are fundamental in the **Nortegas** social positioning.
- **Suppliers and contractors:** **Nortegas** has support suppliers in gas distribution, in works executions, in LPG commercialization and are also support in other activities. Therefore, the correct management of the supply chain is key to ensure the quality of the service provided, as well as to generate a positive impact on its value chain.

CRITICAL FACTORS OF THE NORTEGAS BUSINESS AND THEIR RELATIONSHIP WITH THE MATERIAL SPECTS



SAFETY & PREVENTION

- Crises, emergencies & disasters
- Health & safety of the professionals
- Safety of the consumers
- Safety, health and wellbeing of the consumer
- Information security and data protection



GOOD GOVERNANCE

- Corporate Governance
- Institutional relations
- User and customer oriented and quality of the service
- Ethics
- Corruption & bribery
- Financial performance



TALENT

- Attracting and retaining talent
- Employment rights
- Professional development

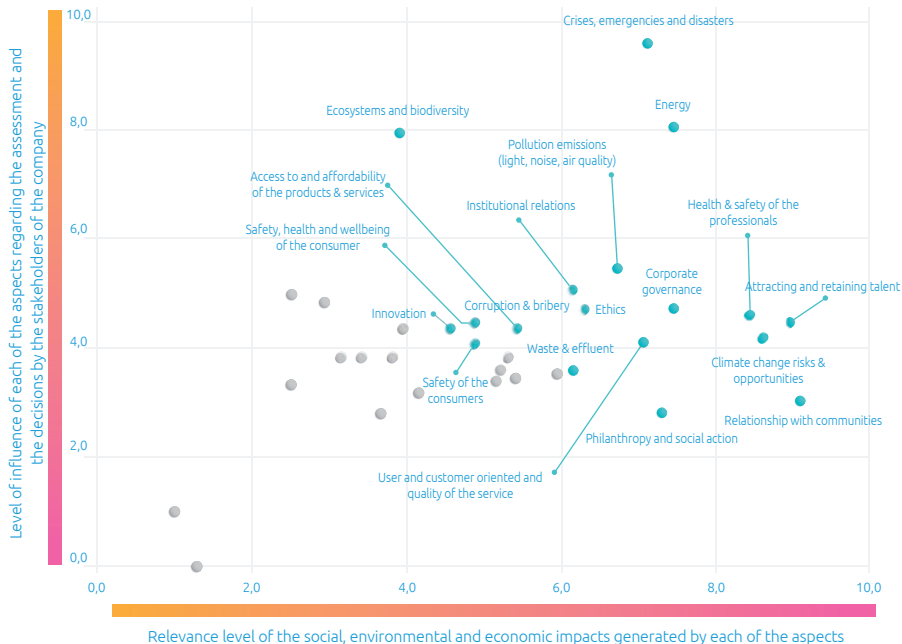


ENVIRONMENTAL & SOCIAL IMPACT

- Energy
- Waste & effluent
- Emissions & pollution
- Climate change risks & opportunities
- Ecosystems & biodiversity
- Human rights
- Relationship with communities
- Innovation
- Access to and affordability of the products & services

MATERIAL ASPECTS

In 2020, **Nortegas** has conducted a materiality analysis that has allowed the company to prioritise the different sustainability management aspects according to how they influence the decision-making processes of their stakeholders and the level of importance of the generated impacts. Each one of the material aspects identified as priority is linked to the **Nortegas** critical factors.



MATERIAL ASPECTS

The 10 main material aspects for **Nortegas** are:

MATERIAL ASPECT

Crises, emergencies and disasters: Resilience of the business model, emergency plan, systemic risk management, critical incident management

Energy: Air quality, own CO₂ emissions and of scope 3, other GHG emissions, noise or light pollution

Attracting and retaining talent: Generating local employment, commitment (satisfaction) of the professionals, job security and types of contracts

Risks and opportunities of climate change: Impact on the business of global warming and its consequences, business opportunities associated to climate change, supervision by the board of directors

Health and safety of the professionals: Managing the safety, health and well-being of the company's own employees and those of the suppliers and subcontractors

Emissions and pollution: Air quality, own CO₂ emissions and of scope 3, other GHG emissions, noise or light pollution

MANAGEMENT APPROACH

Nortegas has a crisis manual which was approved by the Board of Directors in 2019. Additionally, procedures are set out in the quality management system, based on ISO 9001:2015 and which set out the steps to be followed should an emergency occur

Nortegas has an environmental management system certified under ISO 14001:2015, whose policy establishes and determines the company's environmental commitment. During 2020, energy efficiency audits will be conducted and a plan will be put in place to improve the company's performance. Part of the vehicle fleet is fuelled by VNG, which helps to improve air quality. Annually, **Nortegas** controls the acoustic parameters of its facilities by means of the noise measurement campaign.

In March 2019, a human resources policy and the **I Nortegas** Collective Agreement were approved, along with two new management models: competency- and knowledge-based. This is in addition to other initiatives previously implemented by **Nortegas**, such as the training plan.

In addition to the Environment Department, other departments contribute to this point by means of the energy management of work centres by the General Services and the New Business Development Area in terms of opportunities. A study has been conducted to assess the impact of the physical climate risks on the facilities, whose conclusions indicate that it will be low.

The company has a health and safety and prevention of occupation accidents policy. The management system holds OHSAS 18001:2007 certification and expects to obtain ISO 45001:2018 in 2020

Nortegas has an environmental management system certified under ISO 14001:2015, whose policy establishes and determines the company's environmental commitment. There is strict compliance of the legislation in terms of air emissions and the direct and indirect contribution of each of our facilities is controlled by means of measuring the carbon footprint, whose scale has extended and the quality of information has improved.

CHAPTER of this report where it is described

10. Safety and prevention

13. Environmental and social impact

12. Talent

8. Innovation and new businesses

13. Environmental and social impact

10. Safety and prevention

13. Environmental and social impact

MATERIAL ASPECTS

MATERIAL ASPECT

Corporate Governance: Independence of the board and its committees, diversity in governing bodies, performance and dedication of the board, training of directors, functions of the board in matters of climate change or risk management, shareholder rights, executive compensation.

Relations with communities: Management of relations with local community stakeholders, stakeholder consulting, initiatives with local communities.

Ecosystems and biodiversity: Training, career and employability management, remuneration, long-term incentives.

User and customer oriented, and quality of the service: Customer satisfaction, systems to settle complaints and product quality

MANAGEMENT APPROACH

The **Nortegas** Group's corporate governance management model follows the best practices required by the financing market. **Nortegas's** corporate governance ensures the integrity of the decision-making processes - governing bodies and authorization tools -, the appropriate dissemination in the company of those decisions and representing the company through its legal representatives according to the corporate power matrix.

Nortegas belongs to the UN Global Compact Network Spain. The stakeholders map is used to analyse their needs and expectations that are integrated in the day-to-day running of the organisation.

Nortegas has an environmental management system certified under ISO 14001:2015, whose policy establishes and determines the company's environmental commitment. **Nortegas** complies with the licensing conditions of special protection areas and with environmental legislation. It always strives to minimise the impact on ecosystems and biodiversity from the initial project phase.

The customer service system is tasked with the relationship with the end users as set out in the **Nortegas** quality policy. The quality of the service is also guaranteed by means of managing other aspects, such as the safety, health and well-being of the consumer; or crises, emergencies and disasters.

CHAPTER of this report where it is described

11. Good governance

13. Environmental and social impact

13. Environmental and social impact

7. Growth of the regulated business

The chapter of annexes to this report describes the process to prepare the materiality analysis.

Our contribution to sustainable development

As an example of the commitment to the global agenda, **Nortegas** has identified those Sustainable Development Goals (SDG) where it can make the greatest contribution through its ordinary business.

OUR ACTIVITY

Nortegas contributes to the socioeconomic development of the communities in which it operates by means of its natural activity: developing infrastructures to supply clean and affordable energy.

€26.6 million in infrastructure

1,035,062 supply points

8,043 t CO₂e (Scope 1)



OUR IMPACTS



Thanks to the lower emissions factors of gas compared to other fossil fuels, **Nortegas** is helping to fight climate change and its associated effects in terms of hydric stress and impact on biodiversity

- Growth projection in the energy mix



Nortegas runs its operations in such a way as to minimise the possible risks to its professionals and the communities in which it operates. On the other hand, the better air quality due to using gas instead of other fossil fuels also leads to improve health for the communities

- Frequency rate 0.3 and severity rate 0.04



Guaranteeing the energy supply contributes to the sustainability of the communities where **Nortegas** operates.

- The distribution networks cover 8,241 kilometres.



Nortegas is committed to creating stable, inclusive and quality employment and to contribute to local development

- 100 permanent professionals
- 43.1 hours of training per employee
- 38% women in workforce
- 41.2% of the managerial posts held by women. 5 female directors, 3 answering directly to the CEO



Nortegas follows an open business concept and establishes cooperation relations with other social stakeholders in the communities where it operates.

- 6 social action and philanthropy initiatives

4



Our organisation

OUR ORGANISATION

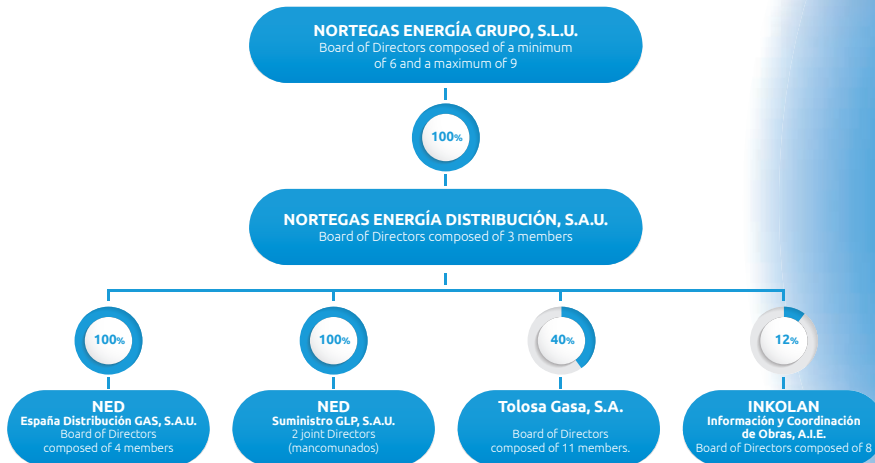
Corporate structure and ownership

The **Nortegas** corporate structure is adapted to the group's operations and includes specific companies for the LPG and natural gas distribution businesses, respectively.

Since 2018, the group has been operating under a single brand in all its markets and activities: **Nortegas**.

As was described more extensively in the 2018 Annual Report, the creation of this brand was a major milestone in **Nortegas's** transition from belonging to a multinational group such as EDP to its full independence. The process was accompanied by a customer relationship and brand positioning strategy that have become the hallmarks of the new company.

100% of the group's capital is owned by the international consortium consisting of Infrastructure Investments Fund (IFF), advised by JP Morgan, Gulf Cooperation Council Sovereign Wealth Fund, Swiss Life Asset Management and Covalis Capital.



The group's governing bodies comprise the Board of Directors and two support committees.

OUR ORGANISATION

Board of Directors

It is the maximum governing, decision-making and supervisory authority of the company and its composition and operating is laid down by the Board of Directors Regulations. Chapter 11 of this report includes information on the good governance rules of the company.

Audit Committee

It assists the Board of Directors in overseeing the process to prepare and control the financial information of the company, along with auditing the effectiveness of the internal control and of the risk management systems, including tax aspects.

EXTERNAL (100%)

PROPRIETARY (100%)

Michael Vareika (Chairman)

John Lynch (in his absence, Sara Sulaiman)

Adolfo Pardo de Santayana

EXTERNAL (83%)

INDEPENDENT (17%)

Conrado Navarro (Chairman)

PROPRIETARY (66%)

John Lynch (IFF Nature)

Mark Mathieson (IFF Nature)

Michael Vareika (IFF Nature)

Adolfo Pardo de Santayana (Swiss Life)

EXECUTIVES (17%)

Javier Contreras (CEO)

Secretary (non-executive): Lara Hemzaoui Rodrigo

Health & Safety and Environment Committee:

It assists the Board of Directors in the preparation and monitoring of the health & safety and environment strategies, policies, goals and resources.

EXTERNAL (100%)

PROPRIETARY (66%)

Mark Mathieson (Chairman)

John Lynch

INDEPENDENT (33%)

Conrado Navarro

Executive Committee

This committee, comprising the directors of the different operational areas and chaired by the CEO, manages the company's operations and resources, by developing and implementing the investment, operating and strategic plans approved by the Board of Directors.

DIRECTORS

Javier Contreras Chief Executive Officer (CEO)

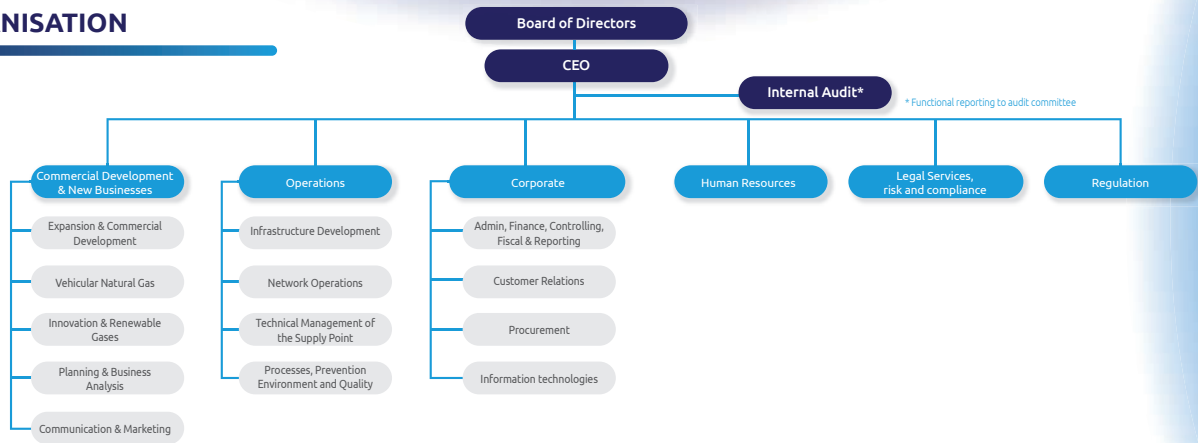
Juan Ramón Arraibi Chief Operating Officer (COO)

Izaskun Gorostiaga Director of Commercial Development and New Business

Juan Villar Chief Financial Officer (CFO)

Javier Inunciaga Director of Human Resources

OUR ORGANISATION



A new organisational structure for the new era

During 2020, **Nortegas** has embarked on restructuring of its organisational model in order to adapt it to the challenges of the new stage of the company's strategy. Within this context, special mention should be made to the setting up of a new business and commercial development division. This new division will include the commercial development and expansion unit, formerly under the operations division, and, furthermore, it will set up new specific units to develop the renewable gas and vehicular natural gas businesses. With this organisational change, **Nortegas** seeks to allocate resources to

its commitment to inroads in new market segments, as well as in the development and production of more sustainable energy sources.

Remuneration model oriented to value creation

Nortegas has a remuneration model based on value creation. To enhance the alignment of professional with the corporate strategy, part of the compensation is fixed and another part is variable. In this way, all **Nortegas** employees have variable remuneration linked to defined objectives, which can be specific depending on the area of each professional or global company goals. The proportion of variable remuneration over

the total varies at different levels of the workforce, being higher in the case of the Executive Committee.

In turn, the objectives combine quantitative aspects, such as the level of income, profit indicators such as EBITDA, cash flows or the number of new customers; with qualitative aspects, such as client's satisfaction rates, accident rates and safety indicators. It should be noted that this last aspect, being security one of the most relevant points for **Nortegas**, takes on special importance in the compensation plan. Therefore, all employees have a part of their variable remuneration linked to the "0 accidents with work leave" objective.

5



Our setting:
only sustainable energy can make the socio-economic development reality

OUR SETTING: only sustainable energy can make the socio-economic development reality

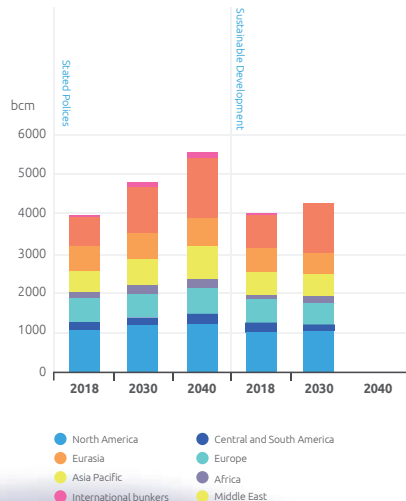
Population growth and socio-economic development, particularly in the case of emerging economies, will lead to new energy needs throughout this century. However, if we want to avoid the physical consequences of climate change, this demand must be met in an efficient and sustainable way, with a more environmentally-friendly energy mix, and driven by a transformation of the productive system by developing new technologies.

“If we want to avoid the physical consequences of climate change, this demand must be met in an efficient and sustainable way, with a more environmentally-friendly energy mix, and driven by a transformation of the productive system by developing new technologies.”



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GAS DEMAND BY REGION AND SCENARIO



Need for a new more sustainable energy mix

Main scenarios

Variations in the energy mix are anticipated due to the decarbonisation of the economy required by the Paris Agreement. As the IPCC acknowledges, the key to keep global warming under the 2°C with respect to the pre-industrial era requires the use of less polluting energy sources. According to the International Energy Agency (IEA), natural gas will be the fossil fuel in greatest demand and its consumption increases by 2030 in all scenarios, thanks to its great versatility and its lower emission levels with respect to other fossil fuels. Thus, natural gas will gain market share at the expense of coal and oil and its presence is guaranteed due to the existence of activities that do not

have an energy alternative to fossil fuels, such as heavy goods transport or the use of fuels in industry and to natural gas's role to make the energy system more flexible. In particular, and in addition to the above, vehicular natural gas can become an immediate energy alternative with a better environmental and economic impact. The gas network is extensive and its integration in the system would be cost-effective compared to other energy alternatives. Furthermore, natural gas is complementary to renewable sources as its versatility allows it to meet the demand of heavy-goods means of transport that cannot be powered by electricity.

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“The gas sector will be impacted by different initiatives such as the European Union's Green Deal, which will mobilise €100 billion for a just energy transition mechanism.”

Consumption of natural gas worldwide grew 4.6% in 2018 and 2019 was a record year for investment in liquefied natural gas (LNG). Natural gas reaches 1,800 out of the more than 8,000 municipalities existing in Spain, and its geographical expansion is therefore still in development.

Depending on the development of renewable energies, IEA estimates that the use of gas could increase up to 30% by 2040 if more ambitious measures are adopted regarding the electrification of the system.

According to EIA (US Energy Information Administration), penetration of natural gas in the industrial sector will be

what particularly drives its growth. It is estimated that the increase in demand in this segment could stand at 40% in 2050, but the IPCC indicates that demand for natural gas would only rise in 50% of the scenarios. Therefore, everything will depend on legislative development and on technological innovations.

Within the gas sector, liquefied natural gas (LNG) is going to play an important role in order to meet the energy needs of emerging economies such as China and India. Its share in the global demand for gas will double from the current 20% to 40% in 2040.

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Legally-driven energy transition

The productive system will have to transform to comply with the Paris Agreement and prevent the rise in the global temperature exceeding 2°C and to keep it under 1.5°C if possible. The gas sector will be impacted by different initiatives such as the European Union's Green Deal, which will mobilise €100 billion for a just energy transition mechanism. Along with this measure, climate change legislation has been passed that establishes the goal to make Europe the first emission neutral continent by 2050 and that the Spanish Government will implement by means of a national climate change act. At operational level, the European Union has developed a regulatory framework called the Winter Package, which includes measures to foster energy efficiency with a focus on the residential sector, renewables, government regulations and the design of an electricity market, among other initiatives. The implementation of those measures will require major investment. According to the Global Infrastructure Outlook, there is a gap between the investments in energy infrastructure that cover the current policies and the investments needed between 2015 and 2040 of 2.9 billion dollars globally and of 26 billion dollars in Spain.

The Government has adopted the National Integrated Energy and Climate Plan (PNIEC) 2021 in order to obtain a

23% reduction in greenhouse gas emissions with respect to the 1990 levels, to achieve that 42% of energy consumption is from renewable sources, that technical efficiency improves by 39.5% and that renewable energy accounts for 74% of electricity generation. According to the 2020 January draft, this will be put into practice by investing €241 billion between 2021 and 2030, which is equivalent to €196 billion of additional investment with respect to a scenario without exceptional policies. The investment will be channelled through efficiency and savings (35%), renewables (38%), grids and electrification (24%) projects and other measures (3%). According to the estimates of the Ministry for the Ecological Transition and the Demographic Challenge, the share of natural gas in the primary energy consumption mix will rise from 20% to 23.5% between 2015 and 2030.

These measures will mean incentives to increase the use of renewable source energies and from other less polluting solutions. Natural gas will be used to ensure the system production at times of scarcity and hydrogen will allow the surplus electricity produced to be stored. On the other hand, the EU Circular Economy Plan aims to reduce the amount of waste deposited in landfill and foster recycling, reuse and repair. This directly impacts on the development

PRIMARY CONSUMPTION OF ENERGY INCLUDING NON-ENERGETIC USES IN THE TARGET SCENARIO

	2015	2020	2025	2030
Coal	13,583	9,084	3,743	2,133
Oil and its derivatives	53,045	55,619	49,302	40,646
NATURAL GAS	24,538	26,690	24,257	24,438
Nuclear Energy	14,903	15,118	15,118	6,500
Renewable Energies	16,620	20,764	26,760	33,383
Industrial Waste		302	303	381
USW (non renewable)	252	168	142	66
Electricity	-11	762	-1202	-3448
Total	122,930	128,507	118,422	104,099

NATURAL GAS STAKE

20%

23,5%

Source: Ministry for the Ecological Transition and Demographic Challenge, 2019

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of biomethane, as its production is a lynchpin to harness waste and to reduce the environmental impact of our productive system. It not only generates energy from waste, but also reduces greenhouse gas emissions that would have been released into the atmosphere from the incineration of that waste.

Therefore, nationally, the profitability of the gas sector and its incorporation to the productive sector will greatly depend on the decisions of the Public Administration. In particular, the distribution business is exposed to additional regulatory conditioning factors that influence its profitability. One example of this is the Circular of the Spanish National Commission on Markets and Competition (CNMC) on the gas distribution companies, which pushes the sector to be more efficient, but which offers long-term backing for the current model as a sustainable business based on the existing infrastructure. The Circular establishes a regulatory framework aimed at continuance and medium-term lines of development have been established, so that regulatory uncertainties are dispelled and new opportunities appear for the sector.

In order to comply with the acquired commitments regarding reducing emissions, there will be an increasingly

greater number of regulations that limit or ban the use of diesel in household and industrial processes and which reward the use of other less polluting resources. Specifically, in the Basque Country, the Energy Sustainability Act 04/2019 establishes the 31 December 2030 as the deadline for the mandatory replacement of diesel boilers by other less polluting energy sources such as natural gas. On the other hand, we can expect greater regulatory development regarding the use of diesel. Catalonia has already approved a new tax on CO₂ and the OECD has indicated that the taxes on the most polluting fuels are not sufficiently high to foster a transition to a low-emission economy.

“According to the estimates of the Ministry for the Ecological Transition and the Demographic Challenge, the share of natural gas in the primary energy consumption mix will rise from 20% to 23.5% between 2015 and 2030.”



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Increase in energy demand globally

According to the United Nations, the world population is expected to reach 8.5 billion by 2030 and will be up to 9.7 billion in 2050. Sustained economic growth will be driven by the development of emerging economies such as the so-called BRICS (Brazil, Russia, India and China) or other Asian economies.

Consequently, unless innovations occur in the technological, productive and social spheres that allow the processes to become more efficient, the Intergovernmental Panel on Climate Change (IPCC) estimates that energy demand could increase up to 39% by 2020 and by 44% in 2050 compared to 2010. This is in keeping with the figures of the US Energy Information Administration (EIA), which estimates that the increase in energy consumption will grow by around 50% between 2018 and 2050. Growth will be mainly driven by the development of the emerging economies.



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Integration of R&D&i in the sector

The World Economic Forum (WEF) has argued that the greenhouse gas emissions related to energy production are increasing instead of reducing, as the IPCC prescribes. As part of the solution to comply with the Paris Agreement, the WEF proposes increasing investment in technology to improve energy efficiency and contribute to more appropriate consumption of current resources.

In the case of Spain, the Ministry for Ecological Transition and Demographic Challenge has highlighted the suitability of the current natural gas distribution network to distribute renewable gases in the near future. The PNIEC supports the development of those gases as they can be used to generate electricity and to cover the energy demand for intensive industrial processes at high temperatures, as well in transport. The Ministry acknowledges the primacy of biomethane in the short and medium term as it can be injected in the current gas network and by the state of the art of technology, its available potential and its

production costs. However, it stresses that, in the long term, the current gas infrastructure must be used to transport 100% renewable source hydrogen, as it allows the surplus energy generated from renewable sources to be harnessed. In short, one of the objectives of the PNIEC is to promote renewable gases and the different barriers faced must be overcome. At present, the production cost is high, there is still no certificate of origin system that guarantees the renewable origin of the gases, a regulatory framework has not been established and there is a deficit of supply facilities. Initiatives have been established in the framework of the PNIEC that the authorities will implement to solve those problems, such as the development of support mechanisms, determining the production potential or creating a stable framework for the certificate of origin. At regulatory level, the Circular recently approved by the CNMC bolsters this plan with a stable outlook as regards the sector's legislation and those objectives.

“Biomethane is emerging as an energy alternative in the short-term, while hydrogen has great potential in the long term.”

However, not all the innovation process is being focused on producing renewable gas, as the sector is also driving digitalisation initiative and the integration of the use of data to improve the quality of the service. In that regard, smart meters will facilitate the relationship with the customers and users, will improve consumption efficiency and increase safety at the facilities.

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Risks and opportunities

The gas sector in general and **Nortegas** in particular are facing a series of risks and opportunities, associated to the main trends in the setting where it operates.

The way of classifying risks as adverse events or opportunities often depends on **Nortegas's** ability to define and implement an appropriate response.

The matrix sets out the main uncertainty scenarios that **Nortegas** is facing, and which, depending on their potential, may become opportunities or obstacles to achieving the company's objectives.

Nortegas has defined a response strategy for each of the risks, which is described in each of the respective chapters of this report.

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RISK	DESCRIPTION	CHAPTER
Decarbonisation	The decarbonisation targets set by the institutions will be opportunities for the gas sector, but also threats as it is a fossil fuel.	Alternative energy source, Sustainable infrastructure in the long run
Regulation	The gas business is, to a great extent, subject to regulation, even though new opportunities can be explored in the framework of the energy transition.	Alternative energy source, Sustainable infrastructure in the long run
Disruptive technologies	The arrival of disruptive technologies allied to the Nortegas offer is a great opportunity, but if it is not managed appropriately, it can be a threat for the traditional business.	Alternative energy source, Sustainable infrastructure in the long run
Changes in demand	Production, cultural or other types of changes can directly affect the demand for natural gas	Affordable power
Attracting and retaining talent	Managing people appropriately will ensure the retention of talent and knowledge in the company, along with attracting complementary profiles	Talent
Reputation	Natural gas is the fossil fuel with the least impact on the environment. Therefore, if it is successfully consolidated, Nortegas gas will be identified with the energy transition	Good governance, Environmental and social impact
Circular economy	The driving of the circular economy and the harnessing of waste is a stimulus to develop biomethane production infrastructures	Sustainable infrastructure in the long run
Health and safety of the workers, customers and communities	The health and safety risks arising from the activity of the company may have a high impact on operations. Therefore, prevention work is of special importance	Safety and prevention
Unavailability of own employees and/or contractors	The unavailability of the workers could compromise the normal operations of the company.	Safety and prevention
Trade war and geopolitical situation	Trade protectionism and supranational strategies directly impact the value chain, which can affect Nortegas operations	Good governance, Sustainable infrastructure in the long run
Data use and cybersecurity	Data are an ally to make the company more efficient, but they can also attract new digital threats.	Safety and prevention

OUR SETTING: only sustainable energy can make the socio-economic development reality

In March 2019, the Risks and Compliance Department was created in the Legal Services, Risks and Compliance Division to improve the management of risks and opportunities. During 2019, the Risks Management System was designed and implemented in **Nortegas**. It was based on the risk management policy and is in line with the ISO731N, ISO 31000 and UNE-EN 31010 standards. The company has set up a Risk Committee to implement the policy and the management system.

30 risks have been identified, with their sources and associated events. The risk management system assesses the probability and the impact of each of them, along with the effectiveness of the controls established for their mitigation. The level of each risk and **Nortegas's** degree of exposure is therefore determined and compared to the company's risk appetite - established in the Risk Statements - and the tolerance defined for each risk. An appraisal will be conducted half yearly, or when any fact emerges that modifies the situation of any risk, and a report subsequently issued of the risk situation in **Nortegas**, which is discussed in the Risk Committee and subsequently submitted to the Audit Committee.



OUR SETTING: only sustainable energy can make the socio-economic development reality

“Since the beginning of the Covid-19 pandemia Nortegas has issued internal communications establishing three priority management objectives: guaranteeing continuity of supply by operating and keeping the infrastructures fully operational, ensuring the health and safety of all Nortegas teams, and helping to minimise, as far as it is able, the economic impact that this health crisis is going to have on the economic fabric of the communities where Nortegas operates.”

In 2020, the spread of COVID-19 worldwide and, particularly, in Spain, which was declared a world pandemic by the World Health Organisation on 11 March and after the Spanish Government enacted the State of Alarm on 15 March, has directly impacted the global economy. In Spain, the movements of citizens have been restricted and economic activity has been limited to those deemed to be essential. In response, the **Nortegas** Risk Department reviewed all the risks and impact of this pandemic on each of them, and issued the ensuing report to the Risk Committee.

Since 15 March, **Nortegas** has issued internal communications establishing three priority management objectives: guaranteeing continuity of supply by operating and keeping the infrastructures fully operational, ensuring the health and safety of all **Nortegas** teams, and helping to minimise, as far as it is able, the economic impact that this

health crisis is going to have on the economic fabric of the communities where **Nortegas** operates.

Exceptional measures have been approved to meet those objectives. Thanks to the communication and system infrastructure, employees have been able to work remotely and access has been restricted to the work centres. Along with these initiatives, additional measures have been put in place for the teams who have to work outside the office, such as not sharing the vehicle or work tools, wearing gloves when working, special attention being paid to hand washing and disinfecting equipment, and stepping up respiratory hygiene measures. The Prevention Team has established two telephone numbers and an address for employees to use for queries or clarifications.

With respect to the operations, **Nortegas** has ensured the energy supply, by activating a plan to guarantee continuity

of supply. Many of its customers - health centres, care homes, administrations - are on the frontline of this emergency situation. Furthermore, any actions have been cancelled or postponed that require the presence of our employees or contractors at the homes or facilities of our customers in order to ensure maximum health, safety and prevention levels for our employees, contractors and, of course, customers. Finally, measures have been designed to support our suppliers, contractors and installers in order to offset the impact of suspending activity in the **Nortegas** value chain.

At the date of writing this report, it would be premature to quantify the impact of COVID-19 on **Nortegas** operations due to the uncertainty regarding the consequences that it will trigger for the Spanish economy and for **Nortegas** in particular.

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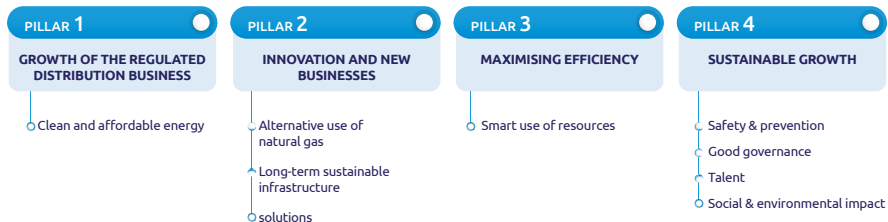


Sustainable growth strategy

SUSTAINABLE GROWTH STRATEGY



“A new organisation has therefore been designed which will focus Nortegas's efforts on consolidating its growth, reinforcing the role of natural gas as a fundamental aspect in the energy transition and, finally, positioning the company as a key player in this process, according to robust sustainability and corporate social responsibility criteria.”



The energy transition is currently at the centre of the social and economic debate, and **Nortegas** is part of this new reality. A new organisation has therefore been designed which will focus **Nortegas**'s efforts on consolidating its growth, reinforcing the role of natural gas as a fundamental aspect in the energy transition and, finally, positioning the company as a key player in this process, according to robust sustainability and corporate social responsibility criteria. **Nortegas** has designed its sustainable growth strategy focused on creating long-term value through the sustainability of its processes. Thanks to this strategy, the company's traditional gas distribution business is accompanied by new focal points of action aimed at developing new

uses such as VNG and ways to exploit our networks through renewable gas. **Nortegas** seeks to contribute to decarbonisation and to the fulfilment of the targets adopted by the Paris Agreement, and to generate a positive impact on the communities in which it operates. Therefore, the identified initiatives are not only going to be focused on complying with regulatory changes and on driving growth, but rather that they go further and seek to involve the community in the **Nortegas** project. The strategy is based on four essential pillars, which are subdivided into different focal points of action.

SUSTAINABLE GROWTH STRATEGY

PILLAR

PILLAR 1

Growth of the regulated distribution business

FOCAL POINTS

Clean and affordable energy

DESCRIPTION

Contribute to ensuring access to a cleaner and more affordable energy supply for more households and companies. Drive the optimisation of the scope of the network and the saturation of a market with margin for growth both with end consumers and in the industrial sector.

PILLAR 2

Innovation and new businesses

Alternative uses of natural gas

Foster new uses of natural gas as an alternative to more carbon intensive fuels, thus contributing to reduce the polluting profile of sectors and users.

Sustainable infrastructure in the long run

Drive innovation in "cleaner" energy sources, such as biomethane and hydrogen, and support the ecological transformation of the sector in conjunction with other key social stakeholders, from public entities, retailers, to research centres and other knowledge institutions.

New solutions

Promote the incorporation of technological innovations in the **Nortegas** economic activity to improve the quality of the service and the development of new solutions

PILLAR 3

Optimising efficiency

Smart use of resources

Improve efficiency by means of reviewing the commercial, structural and operational processes. Maximise synergies within the company by means of a common strategy that embraces the new business lines and the gas distribution activity

PILLAR 4

Sustainable growth

Safety and prevention

Guarantee the safety of the processes and solutions, both for **Nortegas** operations and for the users and communities it serves, with the focus on the prevention and anticipation, but with the necessary capabilities and protocols to efficiently respond if necessary.

Good governance

Ensure an effective and dynamic decision-making process by means of the appropriate composition and structure of the governing bodies and the defining and review of internal processes.

Talent

Foster the role of people and the teams as the basis that makes everything to be possible.

Environmental and social impact

In short, ensure that **Nortegas** generates a positive impact on the communities where it operates, by means of inclusion and involvement of the stakeholders.

7



Growth of the regulated distribution business

GROWTH OF THE REGULATED DISTRIBUTION BUSINESS



“The outlook for the gas sector has opportunities for the penetration of natural gas in the Spanish market to ensure a cleaner energy supply to households and industries.”

Clean and affordable energy

The natural gas distribution network covers 85,000 kilometres throughout Spain. The degree of penetration of natural gas varies between the Autonomous Regions, and stands at 35% in Asturias, 49% in Cantabria and 52% in the Basque Country according to the CNMC latest report in July 2019. The current 65% of demand comes from the industrial sector, partly due to the versatility of gas and to its economic competitiveness. The residential-commercial sector, comprising households, businesses and SMEs, and the use of natural gas to generate electricity complete the current demand of the sector, which stands at around 350,000 GWh per year, consumed by nearly 8 million supply points in 1,800 municipalities. Furthermore, the country's supply sources are very diversified, the reserves are

plentiful and can be complemented by renewable natural gas. Therefore, in contrast to other fossil fuels, the supply is guaranteed, along with it being a supply with a clear place in the future zero-emission strategy.

Therefore, taking the environmental and competitive advantages into account, that gas currently offers compared to alternative fuels, the traditional natural gas business has room for growth. On the one hand, there are still houses and businesses that do not have gas distribution networks or enjoy the ensuing environmental and economic advantages. On the other hand, there are industries which currently meet their energy needs with other more polluting alternative sources.

The publication of the CNMC Circular and Report should be highlighted as a milestone of the year. The CNMC advocates a growth model linked to the activity, i.e., to the most efficient harnessing of the gas distribution infrastructure and has established initiatives so the scope extends in the industrial fabric in order to reach new customers in this segment with high growth potential. In addition, it seeks to foster the use of natural gas as alternative fuel for land transport.

In short, the outlook for the gas sector has opportunities for the penetration of natural gas in the Spanish market to ensure a cleaner energy supply to households and industries.

GROWTH OF THE REGULATED DISTRIBUTION BUSINESS

Nortegas growth

To meet this objective, **Nortegas** has maintained his ambitious investment level of previous years, which has led to its natural gas distribution network being expanded by 0.9%, up to 8,241 kilometres in length and 1.035.062 supply points. This means 1% annual growth in the total volume of gas transported by the networks. This growth has allowed the expansion of the network for the new municipality of Maoño-Escobedo (Cantabria), the coming into service of the network for the Eskuzaitzeta industrial estate, or the extension of the network at the Bobes industrial estate (Asturias). Thus, **Nortegas** has consolidated its position as the second company in Spain in the gas distribution sector, with a market share of 12%, according to CNMC data.



	2018	2019	TARGET 2020
Number of gross new customers in the LPG and natural gas residential segment	17,925	17,822	19,397
Result satisfaction survey of people requesting connections (0-10)	8.04	8.26	
Commercial uptakes and expansions in the year in the Tertiary and Industrial sectors (GWh)		338.24	

In turn, the number of supply points on the LPG network rose 0.3% in 2019, up to 82,799. Special mention should be made of the extension of the network in Selaya (Cantabria) or the authorisation to bring the gas supply to the municipalities of Cudillero and Campomanes (Asturias).

Nortegas expects to continuing with its growth strategy in the coming years and plans to maintain a Capex for 2020 over €30 million, which will allow it to let new users access the advantages of natural gas.

GROWTH OF THE REGULATED DISTRIBUTION BUSINESS



“The Nortegas customer satisfaction index, measured using the three-year survey of retailers continued to be 7.4 out of 10”

	2018	2019
Customer satisfaction index (0-10) based on the triennial survey	7.4	7.4
Complaints received from customers	35,005	45,489 ⁽¹⁾
Percentage of complaints received and settled in the set time period	95.0%	97.7%

(1) There was a change to the codification criterion in 2019 which has affected the logging of the complaints received.

Customer/user oriented

The company's strategy is focused on meeting customers' needs, fostering a continuous improvement culture, complying with the legislation and commitments applicable to the company and driving innovation. This strategy is set out in the quality policy, which defines the main lines of action of the company. **Nortegas** has mature occupational health & safety (H&S), environmental and quality management systems in place in order to provide users a better service. The commitments set out in that policy are implemented through the quality management system, which includes procedures, specifications and detailed instruments for the operation and maintenance of the network.

The **Nortegas** customer satisfaction index, measured using the three-year survey of retailers continued to be 7.4 out of 10. As an improvement initiative, **Nortegas** plans to extend measuring the satisfaction to the end customer, to its LPG customers, in 2020.

During 2019, a total of 45,489 complaints were received, 97.7% of which were settled within the period established by the company. The average waiting time, the average handle time and the percentage of missed calls remained under the targets set by **Nortegas**.

GROWTH OF THE REGULATED DISTRIBUTION BUSINESS

The key initiatives in 2019 include the start of work to set up an exclusive area on the website for **Nortegas** customers to carry out formalities and submit queries online. In turn, quality surveys continued to be conducted with call centre customers and the retailers with customers connected to its distribution networks. Regular meetings were held and different indicators monitored in order to improve the service to customers, and the information gathered used to establish improvement actions. It should also be noted that service quality internal audits were audited to assess the customer service skills of the **Nortegas** team.

Nortegas has defined a series of improvement targets for 2020 regarding the call centre service it provides to its customers and users. Robotization and digitalisation projects have been launched which will allow greater efficiency in the operations with a direct impact on better service for retailers and customers.



	Real 2019	2020 target
Percentage of calls answered in less than 20 seconds	81.2%	80%
Percentage of missed calls	3.9%	<5%
User average waiting time (seconds)	1.19	1.25
Average handle time (AHT) (minutes)	6:00	7:02

GROWTH OF THE REGULATED DISTRIBUTION BUSINESS

“What is important about energy is what can be done with it: it heats homes, allows food to be cooked, have hot water and supports industrial activities, among other social functions.”

Guaranteeing the supply

What is important about energy is what can be done with it: it heats homes, allows food to be cooked, have hot water and supports industrial activities, among other social functions. Therefore, guaranteeing its supply determines not only the quality of the service, but also the quality of life of the people.

Nortegas handles a series of indicators that allow it to monitor its management level in relation to guaranteeing supply and ambitious targets are set annually in order to try to offer the best possible service to customers and users.

	2018 target	Real 2018	2019 target	Real 2019
TCR(1)	2.6	1.5	2.4	1.4
Network intervention index	0.0050	0.0040	0.0050	0.0031
Breakage index	0.0120	0.0132	0.0120	0.0111
Emergency response index	0.0170	0.0173	0.0170	0.0142
Average time between reception and presence (minutes)	30	21	30	20
Network safety and quality Index	0.065	0.024	0.055	0.031
Compliance index of the annual preventive maintenance plan	100%	100%	95%	100%

(1) Calculated as the duration of the supply outage by the number of supply points affected between the total number of supply points

GROWTH OF THE REGULATED DISTRIBUTION BUSINESS

“The management model is based on a set of internal rules. to ensure a responsible relationship and based on the ethical values of the company.”

Supply chain

The main activity of the **Nortegas** supply chain lies in providing technical services linked to the distribution of natural gas or the marketing of LPG, of carrying out works, along with other cross-cutting and different aspects needed for the Organisation

The management model is based on a set of internal rules. to ensure a responsible relationship and based on the ethical values of the Company. Thus, the Procurement Model passed by the Management Committee in 2017 sets out the action policy and the fundamental principles regarding conduct and sustainable purchases. It lists the aspects to underpin the relationship between **Nortegas** and its suppliers regarding regulatory compliance and the code of ethics, responsible environmental policy and health and safety requirements, among others.



GROWTH OF THE REGULATED DISTRIBUTION BUSINESS



The General Contracting Terms & Conditions (CGC), in turn, govern Nortegas's relationship with contractors and suppliers, and include ESG aspects related to employment, H&S, social, tax, environmental, confidentiality or insurance obligations. In addition, the documents that govern the tendering processes are supplemented with technical specifications that the business unit can include among its technical requirements. Management of the supply chain comes under the Nortegas quality system, based on ISO 9001:2015. Both the Procurement procedure and the CGCs are laid down by means of technical specifications and instructions.

The procurement process is triggered by defining the technical requirements by the Business Units, which technically assess the bids received. The Procurement Department heads the negotiations with those suppliers that have successfully obtained the technical validation and prepares the award proposal, which will be approved by the Procurement Division and the relevant business

unit. Finally, the Procurement Department manages the formal aspects of the contracting with input from the **Nortegas** Legal Services - as applicable -, and the life cycle of the purchase in the corporate systems. **Nortegas** has external support tools to obtain detailed information on the suppliers and access their rating, such as Achilles Report, and to coordinate business prevention activities, such as CTAIMA. The aim is to ensure the procurement process is robust.

All the employees involved in the **Nortegas** procurement activities must take the Code of Ethics into account and comply with the fundamental principles set out in the Procurement Manual. In turn, the suppliers accept the corporate General Contracting Terms and Conditions or those set out in an ad hoc commercial contract validated by **Nortegas**, thus guaranteeing that all the corporate procurement operations comply with the guiding principles of the Company.

8



Innovation and new businesses

INNOVATION AND NEW BUSINESSES

Alternative uses of natural gas

Alternative energy source

Natural gas has emerged as one of the energy alternatives to achieve decarbonisation. Given the European Union strategy to turn Europe into the first carbon-neutral continent by 2050, natural gas has had particular prominence recently. This energy source is the fossil fuel with the lowest impact on the environment and offers great opportunities arising from the proliferation of renewable gas. These characteristics, along with the existing capillarity of the distribution network and its affordability make it into an ally of renewables in the Spanish energy mix.

The PNIET projects illustrate these trends and show how the weight of natural gas in the Spanish energy mix will grow and will shift from accounting for 20% in 2015 to 23.5% in 2030.

The Spanish vehicle market is characterised by a large number of vehicles using petrol or diesel as fuel. In the case of private cars, the most popular vehicles use petrol as fuel and account for 55% of car registrations. Diesel vehicles

are in second place, but demand for them is decreasing. Diesel and petrol cars account for 83.6% of the total registrations in Spain as of today.

However, the trend is changing: in just six years, the demand for electric and hybrid cars and ones using alternative energy sources - including vehicular natural gas (VNG) - has risen from accounting for 1% of the total registration to around 17%. Demand for those vehicles is expected to grow with the appearance of restricted traffic areas and the possible introduction of taxes on traditional fuels.

In just the first two months of 2020, the number of registrations of vehicles using VNG, in any of its two forms - liquefied natural gas (LNG) and compressed natural gas (CNG) - increased by 167%, which means 1,635 new vehicles. All the segments have grown, from private cars to lorries and buses. Precisely in the case of the latter, natural gas has emerged as the ideal alternative sustainable fuel, as it allows the vehicles to cover large distances efficiently and not at a high cost. The necessary infrastructure is being developed to accompany the growing demand. The number of CNG gas stations is expected to exceed 130 and the LNG ones to rise to 76 during 2020.

PRIMARY CONSUMPTION OF ENERGY INCLUDING NON-ENERGETIC USES IN THE TARGET SCENARIO

	2015	2020	2025	2030
Coal	13,583	9,084	3,743	2,133
Oil and its derivatives	53,045	55,619	49,302	40,646
NATURAL GAS	24,538	26,690	24,257	24,438
Nuclear Energy	14,903	15,118	15,118	6,500
Renewable Energies	16,620	20,764	26,760	33,383
Industrial Waste		302	303	381
USW (non renewable)	252	168	142	66
Electricity	-11	762	-1202	-3448
Total	122,930	128,507	118,422	104,099

NATURAL GAS STAKE

20%

23,5%

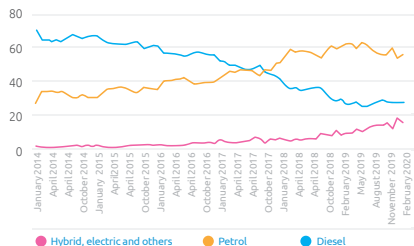
Source: Ministry for the Ecological Transition and Demographic Challenge, 2019

INNOVATION AND NEW BUSINESSES

According to Gasnam, it is this versatility which will lead to over 250 vessels being fuelled by LNG in 2020. This is an 87% increase in just three years. This association endorses LNG as the only alternative for maritime and land heavy goods transport. In keeping with what has been indicated, LNG may also be an alternative to the diesel used for rail transport, particularly for those lines which will be very expensive to electrify.

In turn, the CNMC has highlighted the importance of VNG and has established an incentive to act as a stimulus for distributors and transport companies to facilitate the connect and construction of gas stations.

PERCENTAGE DISTRIBUTION OF CAR REGISTRATIONS BY TYPE OF FUEL



“The characteristics, along with the existing capillarity of the distribution network and its affordability make it into an ally of renewables in the Spanish energy mix.”



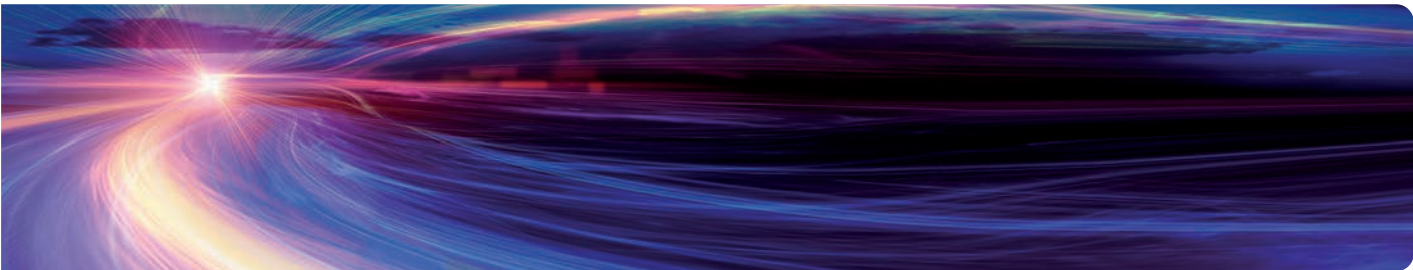
Nortegas on the VNG market

In 2019, **Nortegas** continued to work on VNG initiatives. One example was **Nortegas** acquiring a portable CNG gas station for its commercial use when running a pilot programme at the Ertzaintza (Basque National Police) facilities in Erandio (Vizcaya). The project consisted of using two CNG vehicles to be tested by the autonomous police force and which were refuelled at the police complex in Erandio.

In turn, it should be noted that, during 2019, **Nortegas** continued its commitment to maintaining its own VNG vehicle fleet, which currently consists of 68 vehicles (71% of the total fleet). Regarding the future, there is a firm intention to gradually replace the vehicles of the current fleet that use other fossil fuels until there is a fleet exclusively consisting of VNG vehicles.

“Nortegas continued its commitment to maintaining its own VNG vehicle fleet, which currently consists of 68 vehicles”

INNOVATION AND NEW BUSINESSES



Sustainable infrastructure in the long run

Apart from offering affordable energy to households and industry and from having a lower impact on the environment, the gas sector is facing the challenge of developing new technological solutions that allow the production of renewable gas. The harnessing of waste from other production processes and the surplus of electricity from renewable sources means that this energy source has a positive net impact on the environment. In 2018, a group of researchers headed by IDAE found that the potential of renewable gas could be as high as 200TW/h a year if the technology is developed for biomethane, synthetic gas and ("power to gas"), which is equivalent to 57% of the current natural gas consumption in Spain.

The implementation speed of these technologies will depend on the strategic support from regulations and budgetary development. Special mention should be made of the relevance and suitability of the current natural gas distribution network to distribute other renewable gases. The CNMC has stressed the compatibility from the regulatory point of view of the current infrastructure to distribute renewable gases. That authority has recognised the versatility of renewable gases to generate electricity, to be used in the transport sector and to cover the energy demand of high temperature industrial processes. The CNMC advocates advancing to biomethane production in the short term and progressing to hydrogen in the long term to be injected in the gas network.

With this framework, **Nortegas** is driving innovation that develops competitive solutions in order to advance in the new energy scenario. Therefore, it is investing in technological projects that allow a transition to a more efficient and sustainable society. The company's commitment to innovation is part of the quality policy and its investment in R&D stands at 3.2% of sales. The new strategic plan aims to integrate renewable gas in the business, along with developing new solutions such as the smart meters that foster the integration of the internet of things (IoT) in operations.

INNOVATION AND NEW BUSINESSES

Biomethane

Biomethane is produced using biogas from the decomposition of organic matter, which can come from waste water, urban, industrial, livestock and farm waste, among others, which is processed and turned into biomethane. Biomethane has a chemical composition and an energy power that is very similar to natural gas, which can be injected into the network to be used without new investments being needed for its distribution. This has a double benefit: on the one hand, the methane is captured that was going to be spontaneously emitted to the atmosphere and, on the other hand, it is used for energy production as a renewable and sustainable alternative to more polluting fossil fuels. Therefore, in order to assess the costs associated to its production, its positive externalities must be appraised - supporting decarbonisation, waste management, reducing energy dependency, etc - and that the technology is still under development - Creara estimates that the production costs may be cut by 35% between 2010 and 2030.

Biomethane is not an energy source to be explored, but it is already a reality. There is already a specialist plant in



“Biomethane is not an energy source to be explored, but it is already a reality. Nortegas signed a statement of intent with the Basque Energy Board (EVE) in 2019, to drive the harnessing of biomethane and smart gas distribution networks by means of integrating technology.”

Spain that is treating waste to produce biomethane. In the same way, biomethane production in other European countries has become a part of the energy mix, with its production rising from 752 GWh in 2011 to 19,352 GWh in 2017. Countries such as France have established targets so that 10% of its gas demand is covered by renewable gas and it has indicated that 100% of its gas needs could be met by renewable gas by 2050. Therefore, a priority is for the financial and regulatory development to foster the inclusion of biomethane in the productive system with measures such as establishing certificate of origin, setting renewable gas production targets and driving research, development & innovation activities.

INNOVATION AND NEW BUSINESSES

Nortegas signed a statement of intent with the Basque Energy Board (EVE) in 2019, to drive the harnessing of biomethane and smart gas distribution networks by means of integrating technology. By signing that protocol, **Nortegas** reaffirmed its commitment to the area where it operates to drive decarbonisation and the sustainable development of the zone. In turn, the EVE is contributing to the achievement of its 2030 goals in the framework of the Basque Government's Energy Strategy. The programme is focused on the identifying projects that can be developed to use renewable natural gas in the transport, tertiary or industrial sectors.



In the context of the agreement signed to develop renewable gas in the Basque Country, **Nortegas** and the EVE have implemented the following activities.

- Field tests and technical studies in the Lapatz landfills in Azpeitia (Guipuzkoa) to identify the potential to harness the biogas generated in the landfill.
- Analysis of the investments to be made in the Lapatz landfill to optimise the generation of biogas, by improving its quality and extraction conditions.
- Feasibility study for a project to exploit the existing potential in the Lapatz landfill, by means of upgrading to biomethane and its injection in the natural gas network.
- Framework analysis of the biogas potential in the areas in question and study of some specific opportunities, such as an initial approach to a more detailed study to be performed during 2020.

Nortegas's commitment in this field is not new and its innovative efforts were recognised internationally by the International Gas Union (IGU) in 2018 for the solutions introduced by the company in the Smart Green Gas project to inject renewable gas in the gas distribution network.

In parallel, **Nortegas** is taking part in the DINEGAS project, whose objective is to develop a remote monitoring device to measure the gross calorific value (GCV). It will focus on developing a miniaturised sensor using micro-manufacturing techniques to integrate it in a gas sampling system to extract gas samples at stipulated measurement points and for it to be taken to a reaction chamber allowing the GCV to be measured. In tandem, it will also develop a communications circuit and implement a multiplatform software to monitor and manage the data obtained.

INNOVATION AND NEW BUSINESSES



HyGrid

“Nortegas is part of the HyGrid project in the framework of the European Union's Horizon 2020 programme and also of the SINATRAH project.”

Hydrogen

Hydrogen is the medium-term solution to the problems raised by the unharnessed surpluses when generating electricity using renewable energy. It thus contributes to facilitate the decarbonisation of the economy. Using this type of techniques, the excess electricity generated using renewable sources can be transformed into hydrogen and stored to inject it in the network.

It has been shown that the hydrogen can be accumulated for years. Therefore, if renewable energy production exceeds demand, the surplus electricity could be stored using the hydrogen technology to then be used at times of greater energy demand or to sell in on a hypothetical hydrogen market.

This technology would increase industrial efficiency, reduce the emissions of the current processes where natural gas is used and would have applications in the household sector. Hydrogen could also be used in the transport sector and, even though its estimated cost is higher than that of other fuels, it would provide vehicles with a great range and would therefore be appropriate for buses, delivery service, rail or maritime transport.

Nortegas is currently working on different initiatives to develop hydrogen, which include the following:

- **Nortegas** is part of the HyGrid project in the framework of the European Union's Horizon 2020 programme, whose goal is a proof of concept of a new technology with a low operating cost, based on the direct separation of hydrogen

from the natural gas networks. Therefore, HyGrid will develop a new hybrid separation system involving three different technologies (membranes, electrochemical hydrogen separation (EHP) and temperature swing adsorption (TSA)), in such a way to improve the strengths of each of them.

- The company is also involved in the SINATRAH project, which is studying the transport of hydrogen through the gas distribution network and its subsequent purification, and the use of natural gas mixes with high hydrogen content to generate electricity through high performance advanced internal combustion engines with very low emissions.

INNOVATION AND NEW BUSINESSES

New solutions

The innovation work is not limited to the investigation of alternative energies; it is also focusing on technical efficiency and on improving the experience of the user. Therefore, **Nortegas** will focus on an all-in-one solution for smart meters in the framework of the agreement signed with the EVE in 2019. Those devices will provide information both for the company and for customers, which allows more efficient management of consumption and increases the security of the supply network. **Nortegas**, as a pilot project, will install free of charge 1,000 smart metres in Ugao-Miraballes, which will provide real time information on the supply and any possible faults in it in order to act immediately in risk situations.

Along with installing smart meters, the company is opening the way to digitalisation by means of fitting carbon monoxide and methane sensors in households to detect possible leaks or faults in boilers. The installation of digital networks will allow smart alarms to be programmed when

“These development projects showcase Nortegas's strengths and its high degree of specialisation in the energy sector.”

excessive natural gas consumption is detected, inform the user of alerts related to the supply or, even, work remotely on the meter valve. For the information to reach the users, an application has been implemented that will allow customers to efficiently use the energy by controlling their consumption and improving the customer experience by having direct contact with the company regarding breakdowns, incidents, inspection visits or tips.

Furthermore, **Nortegas** is taking part in the DINEGAS - “Smart natural gas energy assessment” project, which is working on developing a remote monitoring device to measure the gross calorific value. It is funded by the Basque Government and the EU ERDF and will run until December 2020.

These development projects showcase **Nortegas's** strengths and its high degree of specialisation in the energy sector. This allows it to be at the cutting-edge of



the sector and complement its current services with new solutions for customers. It is therefore monitoring the market to pinpoint business opportunities that allow **Nortegas** to lead the energy transition. New solutions are currently being developed - such as the use of VNG or the development of renewable gas - and other activities have been pinpointed where **Nortegas** could participate, such as the servicing and installing LPG home boilers.

9



Optimising efficiency

OPTIMISING EFFICIENCY

“The results of this process will enable a more sustainable use of the resources and a cost reduction.”

In order to improve efficiency within the company and to foster the generation of synergies, **Nortegas** will review its current operational processes to achieve an efficient use of the resources. The results of this process will allow a more sustainable use of the materials used in its business and to cut costs. Therefore, the company will review its current operational and commercial procedures and will seek to further cut costs, either by modifying the modus operandi or by investing in automating certain tasks, either by reorganising the activity or redefining the operational models. Finally, new business lines will be developed by maximising the potential synergies of the new businesses with the rest of the group's activities.



10



Safety and prevention

SAFETY AND PREVENTION

One of the lynchpins of the **Nortegas** strategy is to guarantee the safety of its operations and to prevent negative impacts on the health of its workers, contractors, users and society. It therefore has an occupational health and safety management system certified by the OHSAS 18001:2007 standard and currently being adapted to the ISO 45001:2018 standard. It systematically allocates resources to the operational control of the safety of its actions by means of conducting safety audits, inspections and preventive observations.

In keeping with this strategic approach, the Safety Plan approved by the Board of Directors in 2019 includes risk management related to the health and safety of workers and users. **Nortegas** has an occupational risk prevention policy that includes the commitment of the company.

“One of the lynchpins of the Nortegas strategy is to guarantee the safety of its operations and to prevent negative impacts on the health of its workers, contractors, users and society.”

	2018	2019
Field uptake audit percentage with favourable outcomee	99.33%	99.29%
Percentage of programmed inspection audit with favourable outcome	98.66%	96.91%
Number of technical service OPS	98	106
Customer satisfaction index of uptake inspection	7.79	8.8
Customer satisfaction index of programmed inspection	8.03	8.7

Health and safety of the consumers and community

The safety conditions for consumers and the community are laid down in law, as the process is highly regulated. In particular, the legislation applicable to the **Nortegas** service is established in Royal Decree 1434/2002, Royal Decree 919/2006, Royal Decree 1027/2007, UNE 60670, UNE 60601, Royal Decree 984/2015 and Decree 125/2016 of the Basque Country.

In order to ensure the safety of infrastructures, **Nortegas** has an annual inspection plan that includes:

- Field audits of a sample of the actions of the Area Offices
- Correct compliance audits using a sample of the documents recorded by the Area Offices
- Administrative controls of correct documentary management of the actions of the Area Offices
- OPS (Preventive Safety Observations) of a sample of the actions of the Area Offices

SAFETY AND PREVENTION



Health and safety of the professionals

Nortegas has a robust system to manage the health and safety of the professionals based on OHSAS 18001:2007 certification. The system covers the activities of NED España, **Nortegas** Energía Distribución, Tolosa Gas and **Nortegas** Grupo. A large number of due diligence procedures have been implemented to ensure the correct deployment of the operations. Those procedures are documented in the work instructions (IT), which clearly describe how certain tasks have to be performed to avoid injury or damage occurring, the technical specifications and technical quality specification (ET), which establishes procedures that impact the safety conditions of the contractors. Furthermore, it also has specific procedures in place to prevent occupational risks.

In order to ensure the involvement of all the employees in this area, there are health and safety targets linked to the variable and fixed remuneration of all **Nortegas** employees. Specifically, the variable remuneration of the executive and management team is linked to achieving targets related to the number of accidents, incidents in own vehicles or compliance of the OPS plan. The objectives for middle and technical managers are related to the frequency index.

Each year, the Prevention Service and Division plan the preventive activities to be performed after approval by the Health & Safety Committee, as required by law. As regards the **Nortegas** initiatives in this area, the company is proactive and aims to complete the adaptation of the system to obtain ISO 45001:2018 certification during 2021.

The other activities planned for the coming year include advancing in aspects relating to communication, training and monitoring safety incidents.

“Nortegas has a robust system to manage the health and safety of the professionals based on OHSAS 18001:2007 certification. A large number of due diligence procedures have been implemented to ensure the correct deployment of the operations.”

SAFETY AND PREVENTION

The risk assessment methodology set by the Ministry is used to identify the work-related hazards and assess the routine risks. The H&S technician identifies the occupational risks, as established by law and as laid down in an internal procedure agreed with the Prevention Service. The company is committed to conducting a routine review of 100% of the risk assessment as least every four years and the last one took place in 2019. When so required internally, preventive reviews or risk assessments of specific activities are sometimes carried out. The work-related hazards involving a high risk are contemplated in the risk assessments of the jobs or facilities. They mainly involve protecting against ATEX risks, confined spaces and working at heights given the nature of the activity. The risk prevention measures for those activities are highly regulated by European directives and national regulations.

As part of the fair preventive culture framework promoted in **Nortegas**, employees can report hazards or work

situations with a possible risk if they deem fit using the company's many different communication mechanisms. There is an email address and a space on the intranet where they can fill in a form to contact H&S. Employees can also directly contact their managers and their protection is guaranteed by the Code of Ethics and the Health & Safety Committee. Should an incident occur, each case is jointly investigated by the Prevention Service and the Health & Safety Area.

Furthermore, the annual occupational health monitoring campaign is conducted through the medical unit of the External Prevention Service (SPA) and programmes have been run to improve occupational health and on stress management. There is no occupational disease diagnosis in the sphere of **Nortegas**.

	2017	2018	2019
Own workforce			
Number of accidents with sick leave	1	0	2
Number of accidents with sick leave in itinere	0	1	0
Number of accidents without sick leave	11	1	3
Number of accidents without sick leave in itinere	2	0	1
Fatal accidents	0	0	0
Frequency rate	0	0.22	0.30
Severity rate	0.11	0.05	0.04
Absentee rate	Not available	Not available	<5%
Subcontractors			
Number of accidents with sick leave	5	2	1
Number of accidents with sick leave in itinere	1	0	0
Number of accidents without sick leave	1	3	3
Number of accidents without sick leave in itinere	0	0	0
Own workforce and subcontractor rates			
Frequency rate	0.76	0.22	0.30

N.B: The frequency rate of the own workforce is calculated as follows: (No. own employee accidents*1,000,000)/(No. hours worked). The severity rate formula is: (No. days sick leave*1000)/(No. hours worked). The frequency rate of the own and subcontracted workforce is calculated as follows: ((No. own employee accidents + No. subcontractor accidents)*1,000,000) / (No. own hours worked + No. subcontracted hours worked).

SAFETY AND PREVENTION

Emergency and crisis management

Due to the importance of crisis periods being well managed, a manager from the Emergency Management area is appointed for that task and who reports to the Network Operation and Management Director. The **Nortegas** policy and commitment is included in the company's quality management system. The management system is based on processes and procedures established by the company to safeguard the business and to protect the company's reputation. The processes are documented by means of emergency plans, internal regulations such as the technical

specification and the "Crisis Management" document, where the Board of Directors is included in the management if necessary. The company has set criteria to identify complex situations, has appointed managers to manage those situations and has established communication strategies and processes.

In 2019, 39,756 emergency calls were logged, 12.7% down on 2018, despite the increased number of supply points.

INDICATOR	2018	2019
● Number of calls	45,524	39,756
● Number of notifications	6,281	6,599
● Emergency Management Efficiency Rate (No. P1+P2 notifications for each 1000 SP)	6.09	6.35
● P1 notification allocation time (minutes)	1.15	0.75
● P1 notification travel time (minutes)	25.29	23.78

P1 notifications are those with the highest priority



SAFETY AND PREVENTION

Digital transformation to improve network security

The digitalisation and innovation initiatives of the operations are focused on improving the safety of the users. Those projects provide a strong impetus to improve the management of critical situations. Mobility is one of the projects, which trains teams to interact with **Nortegas** computer system from the field location where they are working. This will allow, for example, the professional to fill in inspection reports from their field location without having to travel to the **Nortegas** work centres to access the systems. The project will allow the degree of security of the supply to be more strictly controlled, along with the emergency response targets and their degree of compliance. On the other hand, the sensor installed in the homes and premises of our customers in the framework of the BIDE GAS project will allow the eradication of critical situation prior to their becoming a risk for the health of the end user and to act more quickly. Finally, the 3G project allow the connection between the system to manage assets - infrastructures - and the user management system. Therefore, when an infrastructure is impacted by an emergency, **Nortegas** can

immediately know the number of users affected by means of data being sent online. The aim of these project is to uphold the commitment to the continuous improvement of the network and to have a positive impact on the safety of the communities.

The technological solutions will allow the risk to be minimised for the users, decision making to be streamlined and, in short, to improve the service and reputation of the company. However, greater digitalisation of the operations implies that the company must be ready to face cyber threats that are ever more frequent and complex. The current strategy uses AS-IS/TO-BE process mapping to address both the current situation and define future processes. Furthermore, the middle managers of the department have variable remuneration targets in line with the strategy and the performance of **Nortegas** in this area. In 2019, an incident related to information security was recorded. However, it was solved satisfactory and was not related to leaks, thefts or loss of data.

“The digitalisation and innovation initiatives of the operations are focused on improving the safety of the users.”



SAFETY AND PREVENTION



“The technological solutions will allow the risk to be minimised for the users, decision making to be streamlined and, in short, to improve the service and reputation of the company.”

During 2019, the maturity level of the organisation's cybersecurity systems was assessed and a strategy defined for the coming years. The processes were reviewed and **Nortegas's** protection against technological risks analysed. The initiatives were:

- Defining a cybersecurity model based on the NIST framework and on ONG-C2M2
- Assessing the cybersecurity level of maturity and define the target maturity level.
- Defining the cybersecurity organisation and governance model
- Identifying the necessary lines of action to achieve the target maturity level, on the 2020-2022 timeline

In order to implement these improvements, **Nortegas** has included the 2020-2022 action lines by means of a budgetary allocation and plans to develop a legislative framework that includes specific cybersecurity aspects within a security policy. During 2020, work will also be carried out on a business continuity plan, on a digital risk management methodology and on improving the operational technology controls to monitor and control the activity.

Nortegas has introduced different measures to raise awareness among the whole workforce and to provide employees with basic notions in this field. Training courses have been run on online on dealing with cybersecurity incidents (82% of the workforce) and on security awareness in the daily use of information technology tools (85%) of the workforce. Controlled phishing campaigns were also run, along with in-person sessions on cybersecurity good practices.

11



Good governance

GOOD GOVERNANCE

Nortegas has transformed its corporate governance processes during recent years. Since it changed into an independent company following the entry of new investors in July 2017, the company has sought to apply the best practices in corporate governance.

In 2018, the company reviewed the Code of Ethics that covers all aspects of the organisation and highlights **Nortegas's** commitment to act according to the principles of integrity, equality and responsibility both from the corporate perspective and in its relations with the rest of the community. Updating the Code of Ethics and approving a governance policy to reinforce the company's rigor and commitment to act honourable are envisaged in 2020.



“In 2018, the company reviewed the Code of Ethics that covers all aspects of the organisation and highlights Nortegas's commitment to act according to the principles of integrity, equality and responsibility both from the corporate perspective and in its relations with the rest of the community.”

GOOD GOVERNANCE

Ethics and compliance

Ethics is an essential aspect of the **Nortegas** strategy and steers its decisions and its relationship with the area where it operates. During 2019, **Nortegas** developed a conduct model that includes the ethical values and the corporate governance principles, risk management and compliance at all levels. The Code of Ethics is the fundamental tool that the company's professionals must follow to fulfil its mission, vision and deploy its strategy. The current Code was approved in 2018 and it is a living document that seeks to reflect the **Nortegas** values and operational principles.

An ethics committee oversees the implementation of the Code in the organisation. This committee consists of "five ethics ombudsman" who are part of the workforce and who report directly to the audit committee. The committee's functions include disseminating the code of ethics, interpreting the code in the case of queries or conflicts, reporting half yearly to the audit committee and to propose corporate ethical policies and instruments, including a review of the Code every two years.

In addition, **Nortegas** has an ethics channel which any of its stakeholders can use to settle matters relating to the ethical conduct of the company. It is not only for employees and the details of the channel are published on the corporate website. Anybody can use etica@nortegas.es email address if they detect any sign of any act contrary to **Nortegas's** ethical values or which are unlawful. The members of the ethics committee are tasked with processing the complaints and proposing corrective or, even, penalty measures. Specific email addresses have been set up for each of the ethics managers in case anybody wishes to communicate with a specific member of the committee. In 2020, **Nortegas** will unify the ethics channel with the compliance channel, whose current function is to settle matters relating to non-compliance and allow conduct likely to be considered a crime to be reported.

“During 2019, Nortegas developed a conduct model that includes the ethical values and the corporate governance principles, risk management and compliance at all levels.”

GOOD GOVERNANCE

The members of the ethics committee received specific training from the Applied Ethics Centre at Deusto University to ensure the channel operates smoothly and the appropriate complaints management and settlement. In total, 100 training hours were invested in the five ethics ombudsman. This is in addition to the training for the whole workforce in four-hour sessions to disseminate the company's value to the employees and to explain the procedures in **Nortegas**.

In addition, **Nortegas** is also firmly committed to compliance both of the Code of Ethics and of the law and external and internal regulations applicable to its activities. Therefore, during 2019, the company has implemented a crime prevention and legal compliance management and organisation model, which is based on the crime prevention and compliance policy and is keeping with the ISO 19600 and UNE 19601: 2017 standards.

At year end 2019, the company reviewed the "crime prevention and legal compliance management and

organisation model", on the basis of which a 2020 Action Plan was designed. It identified the need to consolidate certain controls by means of measures based on the best international practices. The controls to be reinforced include the need to formalise an Anti-corruption Policy to supplement the Code of Ethics - which categorically rejects any type of corrupt behaviour, conduct or practice, along with any corruption and/or bribery - and defines the anticorruption principles of the organisation. In that same line, the updating of the gifts rule and the inclusion of some of those principles in the company's contractual clauses are some of the other actions to be implemented in 2020.

In parallel, 27 hours of training was run for the **Nortegas** management and the Executive Committee on the crime prevention and legal compliance management and organisation model, which was attended by 18 people. Finally, it should be noted that the compliance channel has not received any compliant.

"Ethics is an essential aspect of the Nortegas strategy and steers its decisions and its relationship with the area where it operates."

GOOD GOVERNANCE

Respecting and promoting Human Rights

The **Nortegas** Code of Ethics establishes the company's commitment regarding employment and human rights, based on recognised frameworks both in national and international legislation. In this regard, **Nortegas** is committed to fostering the initiatives and practices that foster the respect of sexual identity and freedom to worship; rejection of workplace harassment; maintaining a safe and hygiene and sanitation project at work to facilitate healthy and safe working conditions; respecting and guaranteeing the right to the freedom of association and the effective recognition of the right to collective bargaining; the elimination of any type of forced or coerced work and the eradication of child labour; the abolition of discrimination at work and in employment; or the rejection of contracting foreigners without work permits, among others. Furthermore, **Nortegas** passes on those commitments to its suppliers by means of specific contractual obligations envisaged in the general contracting terms and conditions.

As part of its crime prevention and legal compliance management and organisation model, **Nortegas** regularly monitors the risk of human rights crimes being committed within its organisation. In this regard, the company has identified two processes, which could affect the specific rights relating to the employment conditions and rights (health and safety of the workers and non-discrimination). **Nortegas** has introduced the relevant mitigating controls to ensure crimes are not committed in those processes.

The Talent and Safety & Prevention chapters in this report contain further information on the management of employment rights at **Nortegas** regarding diversity or health & safety, among others.

As regards diversity and the integration of people with disability on the job market, part of the **Nortegas** suppliers are Special Employment Centres (CEE). Specifically, the total amount of purchases from CEE stood at €99,723 in 2018 and €128,837 in 2019, concentrated in five service providers.

Nortegas plans to review its Code of Ethics in 2020, along with a project to launch a new corporate culture, which reinforce the organisation's commitment to employment and human rights.

	2018	2019
● Percentage of operations analysed by human rights risks	0%	100%
● Hours in training in human rights per professional	7.61	2.54
● Percentage of professionals trained in human rights policies and procedures	97%	88%

GOOD GOVERNANCE



Institutional relations

Nortegas plays an active role within the gas industry and is a member of the main international energy sector associations. It belongs to Sedigas, where it is on the Distribution Committee and on the mobility, renewable gas, building, environmental, fiscal and legal cross-cutting committees, as well as being a member of the management bodies. In turn, it is a member of Gasnam, an association that fosters the use of renewable and natural gas in the land and maritime mobility on the Iberian Peninsula. All the stakeholders of the value chain, including vehicle manufacturers and natural gas supply and loading point suppliers, take part in that association.

Internationally, **Nortegas** is a member of the Eurogas Distribution Committee as the Sedigas representative, as well as on different committees of the European Gas Research Group (GERG) and the International Gas Union (IGU).

In order to mentor and participate proactively and collaboratively in the legislative developments impacting

the gas system and activity of the company, **Nortegas** is an active player in the interrelationship with the regulatory authorities, Ministry for the Ecological Transition, the Autonomous Regions and the National Commission on Markets and Competition (CNMC). It represents the natural gas distribution sector on regulatory bodies that assess, discuss and prepare legislative proposals as the task force to update, review and amend the operating standards of the gas system, the CNMC working group for the change of retailers or the working group of the General Hydrocarbon Sub-Directorate for the development of the injection of biomethane in the natural gas network.

The **Nortegas** strategy in this area is based on increasing its participation in sectoral workshops and presentations. Therefore, the company will seek to reach its stakeholders through new taskforces and establish new alliances in order to work on R&D projects. At regulatory level, the long-term strategy is focused on generating the appropriate

conditions for society to be able to benefit the excellent gas infrastructures in Spain and to maximise their potential. The necessary regulatory initiatives include promoting a roadmap to include biomethane, hydrogen and other renewable gases in the energy mix, along with the regulatory development that allows investments in digitalisation to, among other purposes, universalise the use of smart meters globally in the distribution networks.

“Nortegas plays an active role within the gas industry and is a member of the main international energy sector associations.”

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Talent

TALENT

Managing talent is a cornerstone to achieve the objectives established in the Sustainable Growth Strategy. On the one hand, a priority is for the knowledge in the company needs to be passed on between generations in order to sustain the traditional gas distribution business in the long term. On the other hand, the new challenges facing the company and the innovation activities require new profiles to be added by means of the professional development of the current workforce and attracting new professionals.

“During the last year, the talent management model was transformed and a human resources policy was adopted that fosters Nortegas's commitment to talent.”

Attracting and developing talent

The **Nortegas** Human Resources Policy was approved on 26 March 2019. Its aim is to attract, develop and retain talent, along with boosting the employees' feeling of integration. During 2019, **Nortegas** focused on developing the management system in order to drive the personal and professional development of the workforce and to maximise the potential of the human capital.

Therefore, a competency-based management model has been designed and implemented. Twenty-six per cent of workforce was involved in preparing the model by means of group sessions, meetings or consultations and the scope involved the whole workforce. The model is based on a self-assessment focusing on six corporate competencies that apply to the whole workforce and two additional specific areas for the team leaders. The self-assessment results were used to prepare a development plan based on the 70-20-10 model focused on facilitating or fostering the employee progress. Training sessions were run for 100% of the workforce on how the system functions to drive its application. In addition, cross-cutting targets were



included for all the employees related to the company's strategy in the variable remuneration model established in 2019. Aligning the performance assessment with the environmental, health & safety and business targets was aimed at fostering team work and for employees to work cooperatively.

TALENT

During 2019, Nortegas focused on developing the management system in order to drive the personal and professional development of the workforce and to maximise the potential of the human capital.

Furthermore, **Nortegas** produces an annual workforce Training Plan. New training actions linked to the **Nortegas** values have been implemented. The average number of training hours per employee per year rose by 60.8% in 2019 up to 43.1 hours per employee. The aim of the company is for the Training Plan to be updated annually based on the company's strategic needs and on the specific knowledge that the different departments require.

	2018	2019
● Training hours run	6,454	10,265
● Training hours per employee	26.8	43.1
● Workforce that attended courses	99%	99%

Other key milestone in 2019 was the deployment of the knowledge transfer model. Given the workforce's age generational structure, there will be a generational handover during the coming years. A critical knowledge map

was prepared in order to ensure the key knowledge stays in the company and which will be used to start designing a First Transfer Plan.

Nortegas prioritises the development the current workforce in order to incorporate knowledge in the company. Therefore, internal promotion was stimulated in 2019 in order to cover vacancies or new posts. The aim of these actions is for employees not only to have development opportunities in their post, but also for them to be able to access posts with greater responsibility by facilitating the generational handover. This is fundamental to retain talent and to create a pull effect to other professionals of the sector.

These strategies are in addition to the climate survey action plan, which began to be introduced in 2019, but whose final implementation will be during 2020. **Nortegas** conducted a climate survey in 2018, where the degree of satisfaction was 7.29 out of 10. The company involved 84% of its workforce to analyse seven aspects: leadership, working conditions,

team work, organisation and strategy, development, communication & identity and commitment. The results were used to prepare a strategy to bolster its strengths and progress in its improvement areas. The climate survey action plan was designed to be implemented in 2019 and 2020.

Furthermore, local quality jobs have been created by means of indefinite contracting. Technological profiles have been incorporated in order to develop the **Nortegas** strategic initiative and to foster the sustainable expansion of the company. Furthermore, the emphasis has been on contracting young people in order to improve their employability by means of dual vocational training programmes. Since 2018, the company has run an induction plan to ensure that the employees' employment experience is positive from the first day.

	2019
● Unwanted employee turnover	0.42%
● Total employee turnover	2.52%

TALENT

Diversity

Nortegas has measures in place to safeguard gender equality. The company's Code of Ethics recognises the need to ensure respect between workers, by fostering a climate of diversity, equal opportunities and non-discrimination. The company forbids any conduct that creates an intimidating, hostile or offensive work environment and does not tolerate discrimination or bullying. It has the ethical channel to report incidents related to this area. **Nortegas** ensures that women and men enjoy equal opportunities in terms of employment, training, promotion and their job development, by monitoring any possible discrimination, and implementing active policies to eliminate any possible discriminations on the grounds of sex, civil status, age, territorial provenance and other circumstances that could lead to discrimination or shatter the principle of equal opportunities. Part of the training of the ethics committee involved a specific section on complaints related to diversity and how to deal with them.

During 2019, a training session was run on unconscious bias to foster respect between people and improve work relations between employees. The programme reached 100% of the workforce and involved over 400 hours of training in total. **Nortegas** also included the equality policy in the company's I Collective Bargaining and has designed an equality plan. The plan is envisaged to be introduced in 100% of the group's operations in 2020.

Nortegas is likewise committed to employing people with disabilities by means of direct contracting to join the workforce and by working with Special Employment Centres. The company ensures that the employees with disabilities can access their work post and can perform their work correctly. Currently, 0.84% of the workforce are people with disabilities.

“The company's Code of Ethics recognises the need to ensure respect between workers, by fostering a climate of diversity, equal opportunities and non-discrimination.”

TALENT

● Number of employees as of 31 December by gender, category and age

Professional Category	<35				35-45				45-55				>55				Total				Total	
	Men		Women		Men		Women		Men		Women		Men		Women							
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019				
Operational Technician							5	5	11	10	12	12	14	16	4	4	27	26	21	21	48	47
Support Technician	1	1			6	6	3	3	12	10	9	8	9	9	3	2	28	26	15	13	43	39
Higher Technician	4	3	3	3	11	11	14	12	20	21	7	8	19	20	5	4	54	55	29	27	83	82
Manager			1		8	7	9	9	4	4	3	3	6	6	1	2	18	17	14	14	32	31
Department Manager					1	3	6	6	2	2	1	2	4	3	2	1	7	8	9	9	16	17
Director					3	2	2	1	7	7	1	3	5	6	1	1	14	15	4	5	18	20
Total	5	4	4	3	30	29	39	36	56	54	33	36	57	60	16	14	148	147	92	89	240	236

TALENT



● Number of employees by type of contract, gender and professional category

PROFESSIONAL CATEGORY	2018			2019		
	Open-ended		Total	Open-ended		Total
	Men	Women		Men	Women	
Operational Technician	27	21	48	26	21	47
Support Technician	28	15	43	26	13	39
Higher Technician	54	29	83	55	27	82
Manager	18	14	32	17	14	31
Department Manager	7	9	16	8	9	17
Director	14	4	18	15	5	20
Total	148	92	240	147	89	236

TALENT

	2018	2019
New recruitments joining the workforce ⁽¹⁾	9	5
Promoted employees	10	7
Promoted women	5	4
Promoted men	5	3

(1) All the new recruitments were on the basis of an open-ended contract



TALENT

Employment rights and benefits

Nortegas's commitment to employment rights goes beyond mere legislative compliance.

The adoption of the I **Nortegas** Collective Agreement in April 2019 has helped the company to be recognised in this regard. The company together with the trade union representatives to develop an internal relations framework as an independent company. The employee benefits include a Flexible Compensation Plan where the worker can contract services such as meal or nursery vouchers, purchase computer equipment or a private health insurance.

A flexible working day has been introduced so that employees can choose when their start and end their day in order to foster the work-life balance. Based on what is agreed in the Collective Agreement, 7 people opted for flexible working days for work-life balance, which is 2.96% of the workforce. It also offers its workforce grants and subsidies and 99% of the workforce have signed up to a pension plan.

“Nortegas has a collective agreement since 2019 and its commitment to labour rights goes beyond compliance with the legislation.”

In 2019, 7 working days were adapted for employees. The company implemented other initiatives in order to improve the employee satisfaction and their welfare. A total of 14 employees opted for reducing their working hours for legal guardianship, which is 5.93% of the workforce.

Special mention should be made of the Christmas celebration involving 100% of the workforce and the Raider **Nortegas** 2019, a sport competition run as a team building exercise. Nearly 100 employees took part in the outdoor activities of this initiative.

Reduction of working hours for legal guardianship



2018 2019

12 14

Flexibilising working day based on the Collective Agreement



2018 2019

6 7

13



Environmental and social impact

ENVIRONMENTAL AND SOCIAL IMPACT

Nortegas generates a clearly positive value for the communities in which it operates, but like any organisation or sector, its activity can involve certain negative externalities que specifically impact certain groups, and which need to be managed.

On the other hand, as an infrastructure company, **Nortegas** is aware that its presence on the market is, intentionally, long term. Therefore, it believes that actions have to be taken that allow a long-lasting relationship to be established and consolidated with the communities by means of initiatives to benefit the region's socio-economic development. There is a positive correlation between the socio-economic development level and the development of infrastructures and energy demand. Nortegas is therefore convinced that all actions aimed at generating local wealth has a positive impact on the long-term value of its infrastructures.

It is therefore fundamental to establish dialogue channels with the local communities in order to identify those possible impacts, discover the expectations of the stakeholders and define the responses that best adapt to the needs and desires of the population, along with the business targets. Only by means of this approach of an open relationship with the communities and creation of

shared and sustainable value can the company obtain the social licence to operate needed to legitimise its activity to all the stakeholders with which it relates.

The most outstanding **Nortegas** stakeholder initiatives include:

- Meetings with regulatory groups to identify stakeholder needs.
- Internal group sessions in Nortegas to detect the needs of potential users and communities.
- Fluid and ongoing contact with other agents of the energy market to identify incidents in the service or with the community.

2019

Number of complaints and communications received from stakeholders

1

This all determines a set of **Nortegas** policies with respect to social action, respecting and promoting human resources and the environmental management of the company.

“Nortegas believes that actions have to be taken that allow a long-lasting relationship to be established and consolidated with the communities by means of initiatives to benefit the region's socio-economic development.”

ENVIRONMENTAL AND SOCIAL IMPACT

Social action and philanthropy

Within the social action sphere, **Nortegas** is seeking the active involvement of its professionals, to achieve the triple benefit of contributing to the social good, foster the pride of belonging of its professionals and improving the perception of the company among its stakeholders. Therefore, the **Nortegas** professionals are involved, in one or other way, in all the company's philanthropy initiatives.

Nortegas has the following priorities:

- Contributing to the development of the labour supply for the gas sector: **Nortegas** requires very specific professional profiles and with a high level of expertise which, sometimes, is hard to find on the market. Therefore, the company seeks to become an active promotor of knowledge of the gas sector on university and vocational training courses. In 2019, Nortegas worked with different universities and training centres by means of a dual training programme. Thanks to this programme, 14 students had the opportunity to work in the company and gain in-depth knowledge of the sector.

	2019
Number of philanthropy and social action initiatives	6
Amount of the donations by Nortegas	€1,000
Amount of the donations by Nortegas employees in company initiatives	€1,280
Number of professionals participating in the company's initiatives	74

- Support for groups at risk of exclusion, with special focus on children: the following initiatives were particularly noteworthy in 2019

- Donation of toys for children in poverty, in which 31 employees took part

- Donation of vaccines to UNICEF: **Nortegas** covered the costs of the vaccines donated by all those professionals whose children took part in the Christmas drawing contest. Twenty-six professionals took part in this initiative, which led to 1,288 vaccines for children in the third world.

- Donation of €1,280 to NGOS by 17 Nortegas employees, thanks to the computer recycling programme.

- Promoting social inclusion and diversity: in 2019, training and awareness-raising sessions were organised for Nortegas professionals on bias regarding immigrants and on care and active ageing.

In 2019, **Nortegas** launched its Volunteering Programme. The programme envisages a new figure known as the "Volunteering Ambassador" whose role will be to identify and promote new initiatives.

ENVIRONMENTAL AND SOCIAL IMPACT

Energy consumption and use of resources

Nortegas is committed to the preservation and improvement of the environment and, consequently, is seeking to minimise the possible impact associated to its activities. In 2017, the Environment and Quality Committee approved the 2017-2022 environmental targets programme in which it sets goals to reduce consumption and waste generation. Furthermore, Nortegas has an environmental management system certified according to the ISO 14001 standard, which covers the company's maintenance centres.

In 2019, **Nortegas** placed great emphasis on expanding and improving its information and energy consumption control systems, which has led to a broader scope of the information reported herein and means that the 2019 and 2018 figures are not perfectly comparable.

Energy consumption (MWh)*	2017	2018	2019
Natural gas consumption	394.3	428.2	641.7
- Maintenance centres	288.7	320.6	336.3
- LNG plants	22.6	28.2	21.9
- Offices	Not available	Not available	183.8
- VNG	82.9	79.4	66.5
- Regulation and Measurement Stations (RMS)	Not available	Not available	33.2
Electricity consumption	281.2	295.9	822.3
- Maintenance centres	241.0	261.5	252.6
- LPG/LNG plants	40.2	34.4	122.2
- Offices	Not available	Not available	442.4
- Regulation and Measurement Stations (RMS)	Not available	Not available	5.1
Total consumption	675.5	724.1	1,464.0

*The scope of the 2017 and 2018 figures refers to the Nortegas maintenance centres and the liquefied natural gas plants. The 2019 figures also include the data on the offices and on the regulation and measurement stations (RMS) and, in particular, the liquefied petroleum gas (LPG) plants of Miñano and Gajano for their size and environmental impact.

ENVIRONMENTAL AND SOCIAL IMPACT

Energy consumption and use of resources

During 2020, **Nortegas** plans to conduct energy efficiency audits according to current legislation and will analyse possible areas of improvement, based on which an energy savings plan will be defined.

On the other hand, **Nortegas** does not use water in its production processes and its use is exclusively limited to the consumption at the **Nortegas** work centres. Therefore, the **Nortegas** activity is not intensive in the use of this resource and it is not a very important aspect. In any event, the company is committed to rationality and efficiency in the use of resources and, therefore, monitors the use of water of the organisation and tries to keep its consumption to the minimum possible. During 2019, the company expanded the scope of its measurement system to also include the consumption at its offices.

As regards waste, the main impact of the company is associated to those activities that require civil works project to develop or maintain the gas network.

Therefore, the company's focus is more on appropriate management of the waste generated rather than on minimising it as such. Thus 100% of the waste, both non-hazardous and hazardous, generated as the result of the **Nortegas** are recovered.

Nortegas regularly reports on the volume of waste generated and fuel consumption to the health & safety and environment committee, answering to the company's board of directors.

Waste management (tons)	2017	2018	2019
Total waste recovered	5.0	3.2	4.0
- Non-hazardous waste recovered	4.0	3.0	3.6
- Hazardous waste recovered	1.0	0.2	0.4
Construction and demolition waste (C&DW)	Not available	13.4	14.8
Total waste	5.0	16.6	18.8
Total C&DW per metre of constructed network (kg/metre)	Not available	0.623	0.683

Water consumption (m³)*

	2017	2018	2019
Maintenance centres	573	455	754
LPG/LNG plants	174	162	185
Offices	-	-	745
Total consumption	747	617	1,684

*The scope of the 2017 and 2018 figures refers to the Nortegas maintenance centres and the liquefied natural gas plants. The 2019 figures also include the data on the offices and, in particular, the liquefied petroleum gas (LPG) plants of Miñano and Gajano for their size and environmental impact.

ENVIRONMENTAL AND SOCIAL IMPACT

Emissions and pollution

The main source of **Nortegas**'s greenhouse gas emissions is related to the fugitive emissions of the gas distribution network and are therefore conditioned by the technical limitations of the facilities. In total, considering the Scope 1 (at own facilities) and Scope 3 (at their customers' facilities) fugitive emissions, they account for 94% of **Nortegas**'s total emissions.

Greenhouse gas emissions (t CO ₂ e)*	2018	2019
Direct emissions (Scope 1)	6,550	8,043
- Own natural gas boilers	71	116
- Own vehicle fleet	306	303
- Own fugitive emissions	6,173	7,624
- Other leaks (refrigerant gas emissions from the climate control equipment)	0	0
Indirect emissions (Scope 2)	76	159
- Electricity consumption	76	159
Indirect emissions (Scope 3)	1,066	1,348
- Water consumption	0.26	0.62
- Fugitive emissions from customers and meters	1,066	1,347
Total emissions	7,692	9,549

* The Scope 1 and 2 emissions related to natural gas boilers and electricity consumption in 2018 do not include the offices and the RMS.

Consequently, the main measures to reduce **Nortegas** emissions are aimed at reducing the emissions associated to energy consumption and to the vehicle fleet of the company:

- Reducing emissions associated to energy consumption: in addition to the initiative aimed at reducing energy consumption described in the above section, special mention should be made of the installation of solar panels for self-consumption in 28% of the regulation and measurement stations (RMS). In 2020, panels will also be fitted at the Galeno work centre (Asturias). In addition, **Nortegas** envisages increasing the percentage of contracted electricity with renewable source guarantee from 40% in 2019 to 100% in 2020.
- Reduction of the emissions of the vehicle fleet of the company: in keeping with its strategy to consolidate vehicular natural gas on the market, **Nortegas** is leading by example by means of replacing their own diesel and petrol fleet of vehicles by new natural gas ones during 2019 and whose impact will be seen from 2020.

ENVIRONMENTAL AND SOCIAL IMPACT

Nortegas monitors other possible risks and impacts associated to its activity, such as the impact of noise potentially associated to the civil work projects needed to develop and maintain its network. In the analysis conducted, the company has not identified a noise impact level on the relevant communities.



Own vehicle consumption*	2017	2018	2019
Diesel and petrol (litres)	17,948	15,493	31,360
Natural gas (kg)	82,948	79,373	66,470
CO ₂ emissions per network km (kg/km)	39.12	35.06	36.82

*In 2019 Nortegas increased a 7,5% its fleet of cars

ENVIRONMENTAL AND SOCIAL IMPACT

“The company is committed to the fight against climate change as can be seen from the different policies described throughout this report, such as the introduction of less polluting energies in the energy mix of the country”

Climate change strategy

During 2019, **Nortegas** conducted a study on the impacts of climate change on its activity given different possible scenarios of increases in the global average temperature. The study consisted of an Environmental Risk Assessment (ERA), along with an estimate of the scale of the risk. A climate resilience study was also conducted. The conclusions reached, and notified to the Public Administration as the **Nortegas** business is deemed essential for the Basque Autonomous Community, are that the company does not need to make additional investments for climate resilience, as its infrastructures are ready to support the consequences of climate change.

However, even though the physical risks are not an important threat for **Nortegas**, the company is committed to the fight against climate change as can be seen from the different policies described throughout this report, such as the introduction of less polluting energies in the energy mix of the country (see the chapters on the alternative energy source and environment improvement), reducing the company's energy consumption or the use of cleaner energy sources in its processes.

Impact on the ecosystems

The possible impact of the **Nortegas** distribution network insofar as limits the development process of the infrastructure. Once the distribution piping is laid underground, its impact on the ecosystem is none. In this regard and in relation to biodiversity, **Nortegas** complies with the licence conditions of the works that impact special protection areas, which consist of replacing the vegetation. In 2019, **Nortegas** had 276 km of network and 228 facilities in protected areas or of high biodiversity value.

Gas distribution is not included on the list of activities that potentially contaminate soils. In any event, **Nortegas** annually analyses all the possible impacts on biodiversity, including: affecting water, soil, flora and fauna, air emissions, waste, noise, storage of chemical products, runoff, leaks and spillages, and energy consumption.



Fiscal impact

Nortegas operations directly impacts the Spanish tax system. Thanks to **Nortegas**, the tax system has managed to collect over €19 million in 2019.

	2018	2019
Profits obtained (thousands of euros)	72,495	28,404
Taxes paid (thousands of euros)	13,382	19,157
Subsidies received (thousands of euros)	358	148

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Financial information

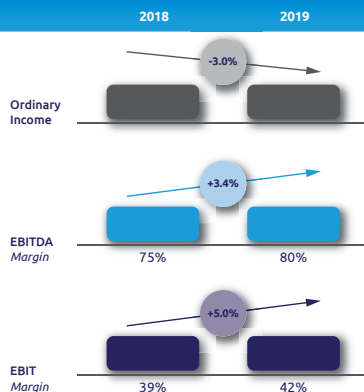
FINANCIAL INFORMATION

Nortegas Consolidated Income Statement

SUMMARY INCOME STATEMENT

(€M)	2018	2019
Ordinary Income	230	223
Supplies	(22)	(18)
Self-constructed assets	7	7
Operating Expenses	(43)	(34)
EBITDA	172	178
Margin	74.7%	79.7%
Amortisation Expenses	(82)	(83)
Results from operating activities	90	94
Margin	39.1%	42.3%
Net Financial Expenses	(28)	(22)
Profit before income tax	62	72
Income Tax	34	(15)
Profit for the year	95	57

MAIN COMPARABLE FIGURES



- 2019 **Ordinary Income and Supplies** are below 2018 figures mainly due to warmer weather conditions
- Lower **Operating Expenses** compared to previous year as a result of cost efficiencies and implementation of new IFRS 16
- **Amortization Expenses:** slightly above 2018 as a result of new IFRS 16 implementation and higher capex
- **Income Tax:** One-off decrease of the Deferred Tax Liability in 2019 (no cash impact) due to a reduction of the applicable tax rate in Bizkaia

FINANCIAL INFORMATION

Nortegas Consolidated Cash Flow Statement

SUMMARY CASH FLOW STATEMENT

(€M)	2018	2019
EBITDA	172	178
Corporate Tax payments	(9)	(18)
Change in Current Assets & Liabilities	17	41
Change in Tariff Deficit + Others	9	5
Capex	(22)	(26)
Interest payments	(27)	(24)
Cash-flow from operating and investing activities	140	155
(€M)	2018	2019
EBITDA	172	178
Capex	(22)	(26)
Cash (EBITDA-Capex)	150	151
Cash Conversion	87.2%	85.2%

• **Corporate Tax Payments:** 2018 figures represent only 8 months of cash taxes (April - December) due to a change in fiscal year end

• **Change in Current Assets & Liabilities** includes:

- Improvements in VAT, Account Receivable, Account Payable and other
- One-off extraordinary Collection of Castor payments of €11M, improving the settlements deficit with the Gas System

• **Change in Tariff Deficit** coming from a one-off collection of payments from the gas system resulting from Castor refunding

• **Additions in Fixed Assets** includes mainly:

- Investments to further develop the expansion of Natural Gas and LPG CPs
- Maintenance investments related to works for network substitution as part of the maintenance programme
- Investment in IT

• **Interest payments** mainly bond interests €21M

• **Strong Cash generation:** EBITDA-Capex of €151M and high cash conversion (85%) with room for Capex increase

FINANCIAL INFORMATION

BALANCE SHEET AS OF 31ST DECEMBER

(€M)	2018	2019
Property, plant and equipment	1,031	1,001
Goodwill	46	46
Other intangible assets	1,502	1,476
Right-of-use assets	-	4
Other non-current financial assets	3	1
Deferred tax assets	20	14
Total non-current assets	2,602	2,542
Other current assets	65	25
Cash and cash equivalents	157	367
Total current assets	222	392
Total assets	2,824	2,933
Total equity	1,141	1,252
Financial liabilities from issuing bonds	1,292	1,294
Leases	-	3
Other non current financial liabilities	2	3
Other non current liabilities	11	9
Deferred tax liabilities	291	285
Total non-current liabilities	1,596	1,592
Current financial liabilities	7	5
Leases	-	1
Debt with group companies and associates	7	5
Other current liabilities	73	78
Total current liabilities	87	89
Total equity and liabilities	2,824	2,933

Nortegas Consolidated Balance Sheet

- Total **Equity** at year end 2019 amounted **€1,252M**
- Total **Cash on Balance Sheet** at 2019 year-end amounted **€367M vs €157M in Dec 2018** as a result of a €204M equity contribution into **Nortegas**
- Total **Net Debt at year end 2019 amounted €944M**
- Financial policy driven by the shareholder commitment of maintenance of strong financial credit ratios to sustain the investment grade credit rating

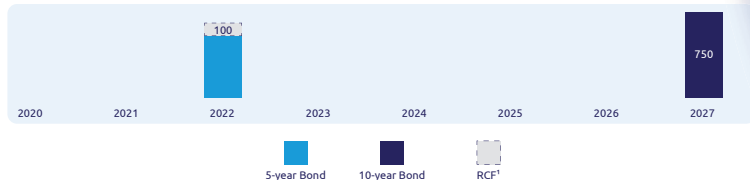
FINANCIAL INFORMATION

Financing Structure, Liquidity Policy & Rating Feedback

Liquidity Position

Instrument	Available (€M)	Drawn (€M)	Coupon
5 years bond	-	550	0.918%
10 years bond	-	750	2.065%
Revolving Credit Facility	100	-	0.075% - 0.300% (depending on use)
Cash on Balance Sheet	367	-	-
Total	467	1,300	-

Liquidity and Financing Structure (€M)



- ✓ Current **structure reduces refinancing risk** by spreading maturities
- ✓ Marked shareholder financial policy to support **investment grade** at Nortegas

Key Data Points

Net Debt
€944M

Rating S&P²
BBB-
Stable outlook
(upgrade from negative in feb 2020)

Available Liquidity
€467M

Average Financial Cost
1.58%

Notes: 1. Currently undrawn; 2. S&P conducts their analysis on Nortegas on a consolidated basis with its parent, Nature. Stand-alone credit profile (SACP) of Nortegas is "bbb", issuer credit rating is "BBB-"

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About this report

ABOUT THIS REPORT

The information submitted includes all the companies of **Nortegas Energía Grupo, S.L.U.**, except in those cases when indicated to the contrary, and refers to the period between 1 January 2019 and 31 December 2019.

This report has been prepared according to the following standards:

- Integrate report framework <IR> of the International Integrated Reporting Council (IIRC).
- The Global Reporting Initiative standards related to aspects identified as material by **Nortegas**.

Process to prepare the materiality analysis

In order to perform the materiality analysis whose results are set out in Chapter 3 of the Report, **Nortegas** carried out the following process:

1. Identifying potentially relevant subjects: the following information sources were used:

- Reporting rules and standards: Spanish Non-financial and Diversity Act 11/2018, the Sustainability Reporting Standards of the Global Reporting Initiative (GRI), and the materiality map of the Sustainability Accounting Standard Board (SASB).

- ESG analysts and investors: SAM (S&P), GRESB, IFF, JP Morgan and Swiss Life.

- Competitors on the Spanish market: Naturgy and Redexis.

2. External prioritisation according to reporting standards and ESG investment analysts:

- Reporting standards: the GRI "Sustainability Topics for Sectors" publication to identify those subjects that are particularly relevant for the "Gas utilities" sector and the subjects identified as relevant according to SASB for the "Oil&Gas midstream" sector.

- ESG investment analysts: the weightings have been used granted for each of the rating criteria used by SAM (S&P) for the "Gas utilities" sector and GRESB.

3. Internal prioritising based on director consultations: using a direct questionnaire, the **Nortegas** directors were used for their perception of different dimensions of the possible relevance of each previously identified subject. The questionnaire was sent to 12 directors, chosen in order to create a representative sample of the activities of the company.

4. Preparing the materiality matrix: the prioritising was presented on a double entry graph with two axes: decision and impact or risk. This representation is in keeping with the

requirements defined by GRI and also meets the requirements of Act 11/2018, which establishes a risk approach to determine the relevance of the subjects. The following criterion was used to assess the relevance of the different subject according to those two axes:

- Decision: the proxies used were the subject relevance analysis of the reporting standards (GRI "Sustainability Topics for Sectors" and the SASB "Materiality Map"), to reflect what the set of stakeholders need to know, along with the opinion of the directors regarding how to get the stakeholders to embrace the different subjects when establishing a relationship with the company.

- Risk: the proxies used are the weighting awarded to each of the subjects by the main ESG analysts (SAM and GRESB), which illustrates the main critical subjects for the sector, along with the directors' opinion regarding the impact of the company on the community where it operates.

5. Indicator identification: finally, for each of the material subjects, **Nortegas** has identified the information requirements and indicators requested by the main reporting standards and ESG analysts.

Therefore, the materiality matrix reflects the opinion of the stakeholders regarding the relevance of the subjects for the company.

ABOUT THIS REPORT

Glossary

CEE:

Special Employment Centres

ESG criteria:

Environmental, Social and Good Governance Criteria.

EBIT:

Earnings before interest and taxes, also known as BAI

Scope 1 emissions:

Emissions produced directly by the emitter

Scope 2 emissions:

Emissions produced indirectly using the electricity consumed and bought.

Scope 3 emissions:

Indirect emissions caused by other agents of the value chain that the emitter cannot control

GHG:

Greenhouse Gases

LPG:

Liquefied Petroleum Gas

LNG:

Liquid Natural Gas

VNG:

Vehicular Natural Gas

European Union's Green Deal:

The European Green Deal is the European Commission's roadmap for the EU to have a sustainable economy.

GRI:

Global Reporting Initiative

GWh

Gigawatt-hour

IEA:

International Energy Agency

IPCC:

Intergovernmental Panel on Climate Change

ISO:

International Organisation for Standardisation

SDG:

UN Sustainable Development Goals

PNIEC:

National Integrated Energy and Climate Plan

tCO₂e:

CO₂ equivalent tons



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