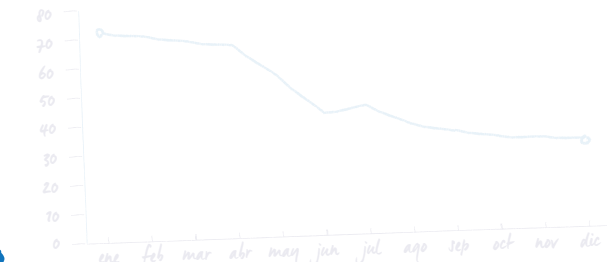
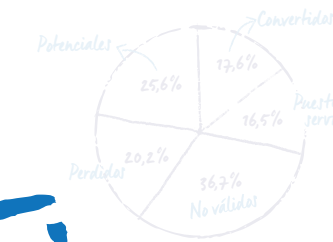


2019

Annual Report

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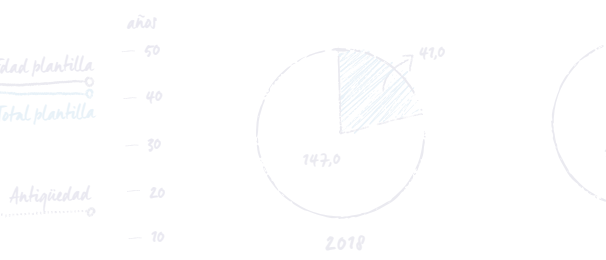
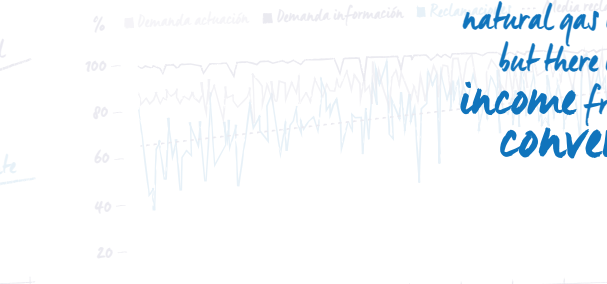
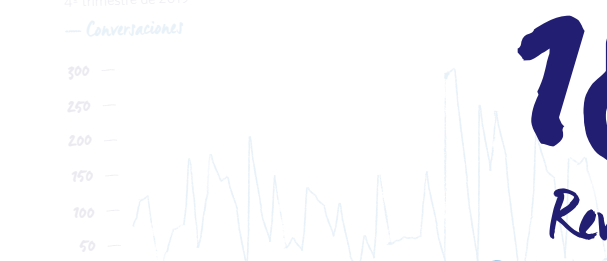
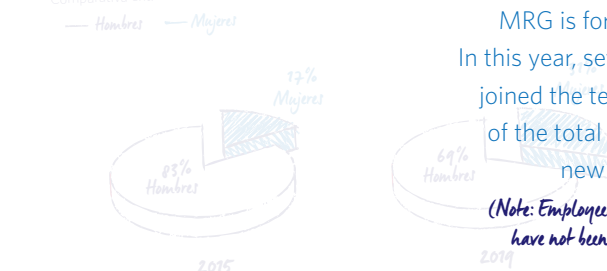
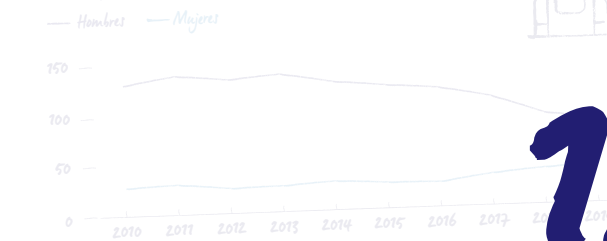
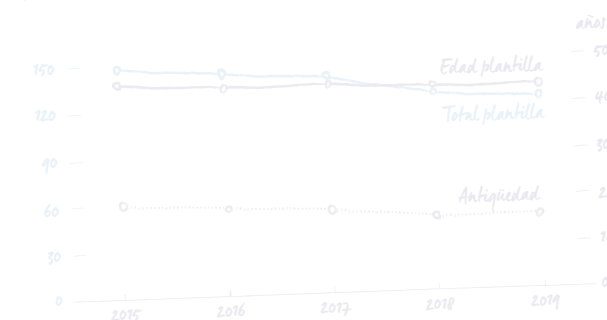
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Most of our regulation and metering stations (RMS) are remotely controlled from the control centre.



MRG distributes natural gas in more than 60 Madrid municipalities. The distribution network has been expanded in 2019 to include another two municipalities of the Madrid Community: Casarrubuelos and Morzarzal. Their more than 16,000 neighbours, among domestic users, businesses, and companies, will benefit from the transforming of their installation to natural gas.



MRG is formed by 125 employees. In this year, seven new professionals have joined the team, which represents 6% of the total headcount. 57% of these new hires are women.

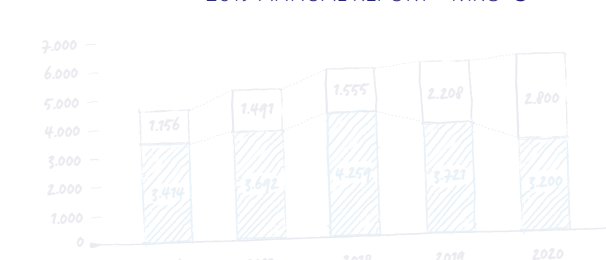
(Note: Employees in the partial retirement scheme have not been included in the final figure.)



The revenue in 2019 has remained stable, with a 3% increase regarding 2018. The remuneration for the activity of distributing natural gas has been the highest, but there has been a drop in the income from LPG, due to its slow conversion to natural gas.



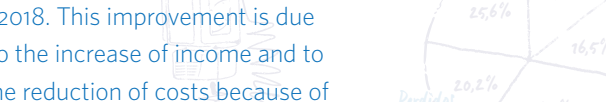
MRG distributes natural gas in more than 60 Madrid municipalities. The distribution network has been expanded in 2019 to include another two municipalities of the Madrid Community: Casarrubuelos and Morzarzal. Their more than 16,000 neighbours, among domestic users, businesses, and companies, will benefit from the transforming of their installation to natural gas.



The cash flow has remained in line with the previous year when it reached 116.5 million Euros. The larger investment in cash flow is due to the end of year position of settlements with the system.



The EBITDA has increased by 3% regarding the results of the year 2018. This improvement is due to the increase of income and to the reduction of costs because of operations efficiency.



Letter from the President

2019 was a year full of events that would mark a milestone in the history of the company and will be very important for its future.

Firstly, and as can be seen in the yearly accounts, we have improved the operational result and the net result, despite the limitations and impact of the 2014 regulatory reform and the cuts that subsequently took place, with the reduction of the remuneration of some activities (such as meter rentals) and the opening up of others to competition (such as periodic inspections). The 2019 results show, once again, the direction of the company toward permanent internal improvement, one of which is the reduction of costs and improvement of processes, at the same time maintaining and improving quality and safety levels of the operations.

Regarding the operations, Madrileña Red de Gas is focused on operational excellence, on customer support, and ongoing improvement of management practices. The acquisition of new clients is mainly aimed at replacing the most contaminating fuels (coal and diesel), in small industrial processes, in the residential sector, with the replacement and modernisation of heating installations, and in the commercial sector, with complete heating and hot water solutions in buildings. In all cases, additionally, the cost of energy for the consumer is lower than with previous installations.

With the new opening of gas refilling stations for vehicles («gas stations»), we have increased the supply of natural gas to respond to a

growing need, in line with the increase of vehicle fleets supplied with compressed natural gas. This increase of distribution in our field of activity will continue in the coming years because there is expectation of a greater need for gas stations.

We have introduced the virtual office, allowing clients to maintain direct contact with the company for all types of processes and communications. Among other achievements, we are the first distribution company that makes the channel most widely used by its clients (WhatsApp) available, from where they may set dates for periodical inspections, freely choosing the date and time, resolve doubts or process any request related to their inspection and/or meter reading processes. Other improvements in this field are also operative. Our intention is to increase the effort and investment in this field for customer experience so their relationship with MRG is easy, simple, and secure. Likewise, we continue revising and improving interaction processes with our current or potential clients: contracts, connections, enquiries, billing, failures and emergencies, collections, and claims.

Our programme for fraud detection, correction, and prevention, pioneer in this sector, is giving very positive results. We have extended the scope of fraud detection and analysis, greatly

reducing the negative impact on the company accounts.

Regarding operational safety, our indicators show a clear improvement, both in absolute terms and in relation to the indexes of comparable sectors.

Regarding corporate governance, the compliance action plan was started last year, supervised by the Board of Directors through the Auditing and Risks Committee. This way, MRG continues adopting the best governance practices.

All these achievements reflect MRG strategic priorities, which continue being operational improvements, customer service, corporate governance, energy transition and regulation.

In 2019 we have achieved the best operational result and net result. These strategic priorities continue being operational improvements, customer service, corporate governance, energy transition and regulation

During last year there have been other very important events for our activity, the Royal Decree-Law 1/2019 of January 11 gives the National Commission on Financial Markets ►

and Competition (CNMC) competences in the development of the remuneration methodologies of the regulated activities. Consequently, the CNMC published diverse communications related to the regulated activities of the electric and gas sectors; among them, retribution of the same, in the calendar established by the mentioned Decree-Law.

retribution of gas distribution was modified and once again sent to the State Council at the end of 2019, meaning its publication was delayed until the initial months of 2020. MRG has acted during this process providing legal, economic, and technical arguments defending a regulatory model that has been working well, providing stability to the business activity with moderate retribution, but coherent with the risk level of the activity in its current definition, and will continue doing so, in defence of its legitimate interests, of legal security and quality of the regulatory process, that are the questions really being considered.

Madrileña Red de Gas considers that regulatory stability is essential to assure company freedom, investment decisions, creating wealth and employment, and the attraction of Spain for investors, because sectorial regulation is nothing else than the specific expression of the legal security principle, essential for the life of a society and for the continuance of the rule of law.

Regulatory stability does not have to disagree with the new direction of regulation, based on energy transition policies, and the recently granted authority of the CNMC, which are the driving force that have impelled the change process started last year in all Spanish energy sectors.

As everyone knows, in this new scenario, energy policies are subject to climatic objectives: reduction of CO₂ emissions, massive introduction for generating electricity using renewable sources, and accelerated replacement of fossil fuels. These objectives respond to a European Union policy but are specifically defined by each Member State. Spain is one of those who have proposed more ambitious objectives in its National Integrated Plan for Energy and the Climate, as has been recognised by the European Commission.

The energy policy is instrumental for reaching those objectives. The changes that must take place in the energy mix, both primary and final, will require not only large investments in all energy subsectors, but also in the industrial sectors using energy in its different formats and in the remaining uses of energy (commercial and residential). In this scenario, the key question for MRG, and for the entire gas sector, will be the role of gas in the energy transition and beyond.

Evidently gas has many short term advantages: it replaces coal and oil derivatives in the most important uses, notably reducing emissions, not only CO₂, but, and above all, the most polluting substances (nitrogen and sulphur oxides, carbon monoxide) and with economic advantages (low prices at a medium term

perspective). One example of these advantages is the comparison between electric cars and gas ones, in the current market and technology conditions. The latter cost less, both for acquisition and for mileage, and the total carbon footprint of an electric car can be less than that of a gas one only after having covered a very large quantity of kilometres. Likewise, the experience of usage of electric vehicles in intensive use (delivery fleets and others) is not being as satisfactory as expected.

Evidently gas has many short term advantages: it replaces coal and oil derivatives in the most important uses, notably reducing emissions, not only CO₂, but, and above all, the most polluting substances

In the long term gas is unreplaceable in numerous industrial processes and is a perfectly acceptable alternative for other end users, since there are no other technologies offering the same costs and performances. On the other hand, whatever the technological evolution, gas networks provide the most efficient access for consumers to, renewable gas in the short and medium terms, and hydrogen in the long term, after developing the production technologies that allow reducing their costs to those of natural gas. This potential distinguishes gas from other fuels, so it ►

Madrileña Red de Gas considers that regulatory stability is essential to assure company freedom, investment decisions, creating wealth and employment, and the attraction of Spain for investors

The CNMC proposals were the object of allegations by the affected companies, due to the serious incoherence they contained, both from a strictly legal viewpoint and regarding economics, with impact in the coming years that not only modify the current retribution model without any justification, but also put the viability of the companies at serious risk. In addition, the public consultation process was clearly insufficient and could be manifestly improved.

Because of the allegations and the State Council observations, the communication related to

becomes the indispensable complement of electricity in the long term.

Understanding these factors by the Administration, and the efforts of the gas sector and generally that of industry to adapt to the transition scenarios, must allow guaranteeing the network management activity for a very extended future. We also trust that the future Energy Transition Law, which could be approved in the first part of the current parliamentary term, establishes rational and viable objectives for all the affected subsectors, and that the regulatory framework adapts to facilitate reaching them.

After the Covid-19 pandemic we must design the macroeconomic and sectorial scenarios, even with some uncertainty, which allow directing the future of the company in the medium and long terms

Therefore, the way this energy transition is designed and developed is crucial. The future of gas as a clean energy is a real solution available from today to radically improve air quality in cities (one of the major problems of developed societies), and the role that natural gas can play in mobility due to the aforementioned advantages will depend on this.

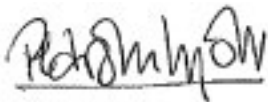
We must insist in that the regulation of sectors like the energy one, and more so in this new scenario, needs ongoing and fine adjustment, the success of which depends, above all, on continuous dialogue with the stakeholders, who know the detail of the complex reality we should manage every day.

The Covid-19 pandemic was declared after the start of 2020, giving way to measures dictated by the Government, as from March, to establish the state of alarm and try to contain expansion of the disease, imposing the stoppage of the greater part of production activities, except those considered as essential. Consequently, that has caused an important drop in the demand for goods and services, among which, energy, with the subsequent negative impact on the energy sectors.

The first phase, with greater incidence and lethality of the disease, has affected our employees. Teleworking was organised for all possible cases and non-essential activities were suspended (except attention to emergencies and safety), without any greater problem. Now is the time to design the macroeconomic and sectorial scenarios, even with some uncertainty, that allow directing the future of the company in the medium and long terms, after evaluating the impacts of this initial phase of inactivity and in the company

accounts. We expect to be able to report in detail in the next few months as soon as the economic situation regains normality.

Finally, I would like to express, once again, the company’s gratitude to the shareholders for their support in all action plans, both in the short term and with a long-term vision. And to the management team and all those who dedicate their working lives to Madrileña Red de Gas, in recognition of what has been achieved and in support for all the challenges that lie ahead in the coming years. ■



Pedro Mielgo
President

The Company

Madrileña Red de Gas distinguishes itself for developing a competitive, innovative, and sustainable model of business that satisfies all stakeholders. For another year, we have continued growing and facing new challenges that have helped us offer new services and to improve relationships with clients.

Board of directors

- Consilia Asesores, S. L. **President**
(Pedro Mielgo, legal representative)
- Dennis van Alphen **Director**
- Martijn Verwoest **Director**
- Andrew Scott Wilkie **Director**
- Ruwantha Vidanaarachchi **Director**
- Dong Dong **Director**
- Simon Davy **Director**
- Fanny Grillo **Director**
- Pierre Benoist d'Anthenay **Director**
- María Martín **Secretary (not director)**

Executive committee

- Alejandro Lafarga **General Director**
- Rafael Fuentes **Legal Director**
- Inés Zarauz **Financial Director**
- David Ortiz **Expansion Director**
- Glen Lancaster **Operations Director**
- María Vázquez **Human Resources Director**
- Félix Blasco **Network Operations Director**

REGULATORY FRAMEWORK

The Spanish gas sector is regulated by Law 34/1998, of October 7, of the Hydrocarbons Sector, reformed by Law 12/2007, of July 2, Royal Decree-Law 13/2012 and Law 8/2015, of May 21, as well as by Law 18/2014, of October 15, and by its implementing provisions, amongst which Royal Decree 1434/2002, of December 27, Royal Decree 949/2001, of August 3, and Royal Decree 984/2015, of October 30 stand out due to their importance.

The Ministry for the Ecological Transition (previously called the Ministry of Energy, Tourism and Digital Agenda) is the competent body for the regulation of the gas and electricity sector, while the National Commission on Financial Markets and Competition (CNMC) is the regulatory authority that has been entrusted with the tasks of maintaining and ensuring effective competition and the transparent functioning of the Spanish energy sectors. Until the publication of Law 3/2013, of June 4, these functions were performed by the National Energy Commission (CNE), which has been included into the CNMC. The respective Ministries of the Autonomous Communities have competences both in the development of regulations and in the execution of regulations.

In January 2019 the Royal Decree-law 1/2019 of January 11 was approved about urgent measures to adapt the authority of the CNMC to the requirements derived from Community law related to Directives 2009/72/EC and 2009/73/EC of the European Parliament and of the Council of Europe, dated 13 July 2009, about community rulings for the domestic electricity and gas markets. That modified Law 3/2013 of

June 4, about the creation of the CNMC, Law 34/1998 of October 7, about the hydrocarbon sector, Law 24/2013 of December 26, about the electricity sector, and Law 18/2014 of October 15, for the approval of urgent measures for growth, competitiveness, and efficiency. In this sense, the main modifications have been the following:

- The independence of the regulatory body in the approval of its regulatory circulars is guaranteed.
- In relation to the remuneration of gas and electricity transportation and distribution activities and of liquefied natural gas (LNG) plants (except for underground natural gas storage), the CNMC will approve the methodology, the remuneration parameters, the regulatory basis of assets and the activity's annual remuneration. In any event, the financial remuneration rate may not exceed the maximum limit established by law for the regulatory period. Regarding the access tariffs for the electricity and natural gas networks, it is established that the regulatory authority will approve, in addition to the tariffs methodology, their structure and specific values, corresponding to the Ministry for Ecologic Transition and the Demographic Challenge, the approval of the structure of the positions, their methodology and their values.
- In relation to the conditions of access and connection to electricity and natural gas transportation and distribution networks, the CNMC will be responsible for approving access and connection methodology and conditions. ►

- The regulation of the operational rules for organized markets will be the responsibility of the CNMC.
- The remuneration of the electricity system operator and gas system technical manager will be established by the CNMC.

The initial remuneration recognized for Madrileña Red de Gas for the financial year 2020 amounts to 147,093 thousand euros for the period between January 1 and December 31, 2020

On 20 February 2019, the CNMC published the calendar of regulation communications that can affect aspects of the energy policies to be processed in 2019.

On 9 April 2019, the Order TEC/406/2019 was published, establishing energy policy guidelines for the CNMC, indicating the recommendations from the Ministry of Energy Transition and Demographic Challenge related to the communications foreseen for 2019.

The CNMC have approved the following circular letters:

- Circular 01/2020, of January 9, which establishes the retribution method of the gas system technical manager.
- Circular 2/2019, of November 12, which establishes the natural gas balance regulations.
- Circular 8/2019, of December 12, which establishes the methodology and assignment and access conditions in the natural gas system.

- Circular 9/2019, of December 12, which defines the methodology for retribution of the regulated activities for transport and regasification of gas.
- Circular 4/2020, of March 31, which establishes the methodology to define the retribution of natural gas distribution for the 2021 - 2026 period.

Currently the circular which establishes the methodology to calculate the rates for transport, local networks, and regasification of natural gas —CIR/DE/003/19— is being processed; its approval is expected during 2020.

Ministerial Order ETU/1283/2017, of December 22, established the remuneration of gas sector regulated activities for 2018.

Specifically, the initial remuneration recognized for Madrileña Red de Gas for the financial year 2018 amounts to 142,817 thousand euros for the period between January 1 and December 31, 2018. The ministerial order includes an adjustment of the remuneration for 2016 and 2017 for an amount of 2,432 thousand euros of higher income, without this implying a significant impact on the profit and loss account.

This Ministerial Order ETU/1283/2017 modified the meter rental rate and telemetry equipment for 2018 with a negative economic impact for the gas sector of, approximately, 55,000 thousand euros of lower income, and for Madrileña Red de Gas of 5,200 thousand euros of lower income. The distributors Nedgia and Redexis have appealed the Order before the courts, and the appeal is currently pending.

If the resolution of the appeal were favourable for these distributors, it would have the same positive effect for the rest of the distributors and, therefore, for Madrileña Red de Gas.

The Ministerial Order TEC/1367/2018, of December 20, has established the remuneration of the regulated activities of the gas sector for 2019. Specifically, the initial remuneration recognized for Madrileña Red de Gas for the financial year 2019 amounts to 142,817 thousand euros for the period between January 1 and December 31, 2019. The order includes an adjustment of the remuneration for 2017 and 2018 for an amount of 1,700 thousand euros of higher income, without this implying a significant impact on the profit and loss account.

The resolution of December 18, 2019 from the CNMC has established the retribution of the companies conducting the regulated activities for liquefied natural gas (LNG) plants, for transport and distribution in the year 2020. Specifically, the initial remuneration recognized for Madrileña Red de Gas for the financial year 2020 amounts to 147,093 thousand euros for the period between January 1 and December 31, 2020. ■

CORPORATE SOCIAL RESPONSIBILITY

Globalisation requires that companies design increasingly competitive business models, but also more sustainable ones. Within this framework, in MRG we understand that to compete successfully we must differentiate ourselves with a business model that is going to create economic value, provide social and environmental values and search for satisfaction

of all stakeholders. Innovation is needed to be competitive, an indispensable and key condition for the creation of wealth both for the company and for our clients.

Sustainable development also means that, every day, from MRG we face new challenges that help us to question our way of thinking and acting, searching for the development of new services and establishing new relationships with our clients, which allows us to have the necessary information and knowledge to have a wide range of perspectives and future sights, to establish necessary collaborations to make them become a reality.

For the fourth consecutive year, MRG has participated in the «GRESB Infrastructure» initiative, to maintain a global vision of the company regarding the previous years, as well as the degree of maturity in this matter compared with other companies of the energy sector. ■

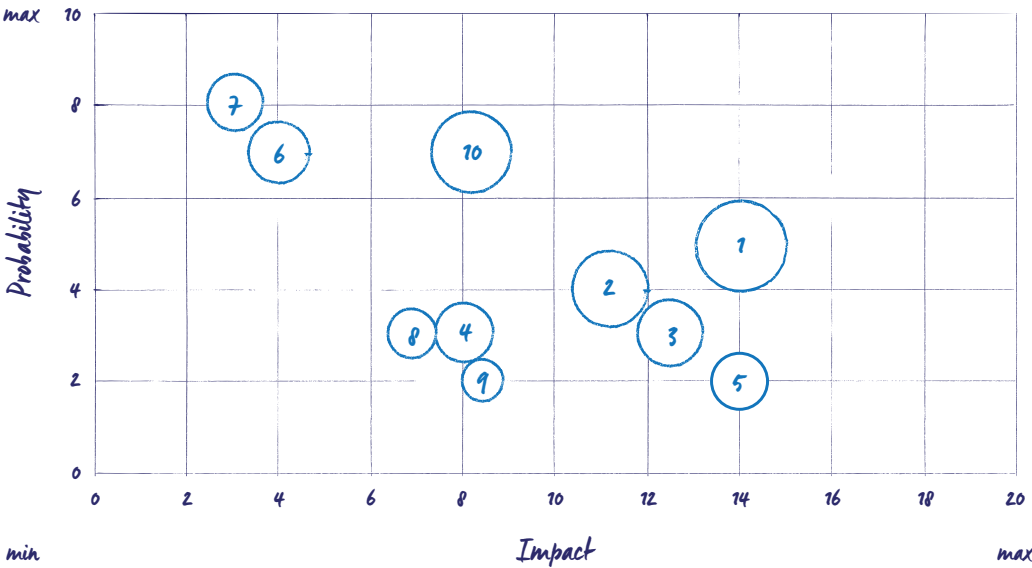
CORPORATE RISK MANAGEMENT

Companies are constantly facing diverse risks: economic, social, political, climatic, etcetera. The position we take to manage the uncertainties derived from company actions is vitally important when deciding a proactive focus in the management of these risks. We cannot eliminate them from the development of our activity, but we can manage them responsibly and adequately, and consider all of them, so they do not interfere or limit our growth.

For this reason, in MRG we formed the Risks and Auditing Committee, which operates ►

MRG risk map

- 1 Regulatory risks
- 2 Accounting regulations
- 3 Tax inspections
- 4 Cybersecurity
- 5 Prevention of serious accidents
- 6 Gas losses
- 7 Obsolescence of gas meters
- 8 Occupational risk prevention
- 9 Sectoral legislation
- 10 Fines for accounting regulations



according to that established in our internal operation regulation, which defines its objectives, functions, and composition. This committee is formed by the risk management department, as well as representatives from the Executive Committee and Board of Directors and reports directly to the company Board of Directors.

At the beginning of each new year the agenda of the periodical meetings of this committee is defined, these will be before each meeting of the Board of Directors; as well as the periodical visits of the independent experts designated by our investors to deepen their knowledge of the risk management being developed in the most representative operational processes of MRG. This agenda contemplates monitoring the map of corporate risks, the most relevant

risks, as well as their control and mitigation plans, auditing of accounts and the prevention policy of criminal offences. These activities result in the issuing of recommendations for risk management and for the Board of Directors.

The integration of risk management policies in MRG is articulated based on the progressive implementation of transversal analyses of the risks in which the business and corporate units most linked to the affected processes intervene and has support from the finance area.

Likewise, the risk management area participates in periodical meetings of the Executive Committee, incorporating information about the evolution of the risks map in the monthly reports sent out to our shareholders. It includes

the ten most significant risks, which have been evaluated using a criterion based on:

- The probability of a risk occurring.
- Impact as the combination of the effect on the net present value and reputational impact. The effect of the current net worth considers both the direct economic impact for the next twenty years and any possible sanctions.

Likewise, this map covers emerging risks by periodical updates of its content and establishes new high-level monitoring processes that add to existing ones. The implemented action plans contribute to mitigating the consequences of these risks. ■

DATA PROTECTION

Data protection is a fundamental right included in the Spanish Constitution, developed by Spanish legislation in Organic Law 3/2018 about Personal Data Protection and guarantee of personal rights (LOPD-GDD), as well as by the European legal framework that also recognises this right in the General Data Protection Regulation (GDPR) and that commits all member States to guarantee the same for their citizens.

All companies must always be aware that the personal data they manage does not belong to them, therefore we have the responsibility of correctly treating the same. The regulation defines the application on our part of a series of basic principles, like quality of the data, the obligation of information and the obligation of secrecy. Likewise, it defines the

application of a series of safety measures, like responding to the exercising of their rights by the stakeholders, requesting consent for certain treatment, regulating the granting or communication data to third parties, etc., with the only aim of protecting personal data, making the use of its protection a responsibility for the companies and entities having access to the same.

In this framework, personal data protection by MRG has registered a quite significant increase of the activities compared with previous years. The most relevant activities have been mainly centred on definition of the criterion, management of incidents and resolution of enquiries; many of these activities are related to the exercising of the personal data protection rights by the stakeholders.

MRG has appointed its data protection delegate, maximum authority on the subject who participates in the Executive Committee, the Risks and Auditing Committee, and the Cybersecurity Committee,

At MRG we have defined our data protection management model based on the structure of ISO management systems, so it can take adequately advantage of the synergies existing with the rest of systems. Starting with the data protection policies and information security policy, we have a management manual that includes more than ten personal data protection procedures. These procedures are periodically revised to assure their content is always updated.

This management manual includes interaction with the interested parties using two channels: ►

- 1) Website publication of the personal data protection policy, as well as the information regarding treatment of personal data for the stakeholders; distribution of the same is reinforced through diverse communications that MRG sends to users.
- 2) By means of active management of the personal data protection delegate's mailbox, which in this year has received more than 300 requests.

Likewise, in 2019 we have defined a new framework of contractual clauses for personal data protection that are progressively being added to the contracts, with the aim of considering the particularities of the large variety of services contracted.

We must highlight as relevant innovation regarding previous years:

- The participation of the data protection delegate in the Cybersecurity Committee, that way to guarantee that the policies are defined taking into account the obligations and requirements in personal data protection matters.
- Business activity coordination actions in data protection, with the aim of unifying criteria and good practice agreements.

- Monitoring of the data protection role in our chain of suppliers, through the information provided by the Repro portal about the maturity of its privacy policies, as well as through the auditing reports issued by the Repro Community.
- Interaction with the Data Protection Agency motivated by protection processes of interested parties' rights.
- Deepening into the risk and impact evaluation model in the different ways of treating data protection.

Finally, and to promote internal data protection culture, the MRG internal regulation library has been complemented with publications about revisions and updates made in the year, maintaining control of the validity of the documentation included therein. ■

In 2019 we have defined a new framework of contractual clauses for personal data protection that are progressively being added to the contracts, with the aim of considering the particularities of the large variety of services contracted

Business

In 2019 more users have chosen natural gas, a clean energy, respectful with the environment and safe. Regarding 2018, the gross growth of MRG clients was 3.2%. This has been the year of company digitalisation, with the starting of different and innovative initiatives in a transversal plan for ongoing improvement in customer support.

ADVANCE AND GROWTH

All the activity of Madrileña Red de Gas is sustainable, giving priority to respect for the environment and always finding the balance between economic, environmental, and social aspects.

Comfort, safety, and cleanliness typical of natural gas means improvement in life quality for thousands of homes, as well as an important savings in your energy bill —between 20% and 45%—, according to annual consumption and fuel supplied. Its usage in businesses and companies, favours competitiveness and efficiency, which translates into saving between 30% and 50% that can be used to increase

productivity of the business or the company in any sector. It must be considered that traditionally, gas is the cleanest energy because of its minimum emissions of NO_x and CO₂ particles.

The arrival of natural gas to a municipality means an important advance and great boost for its economic activity.

In the objectives marked by MRG, one of our priorities is that of extending natural gas to all those municipalities that still do not have this source of energy. Its deployment will be a help for the economic and social development of the area.

Within this action framework, during the last tax year, MRG obtained the corresponding administrative authorisation for the distribution of natural gas in two new Madrid municipalities. Casarrubuelos and Moralarzal. The distribution is by means of the extension of our networks from the neighbouring municipalities of Cubas de la Sagra and Collado Villalba, to reduce environmental impact and the disturbances caused to the neighbours.

The processes towards obtaining the necessary permits for the extension of the distribution network started in 2019, and we expect to start supplying natural gas during the years 2020 and 2021.

These two municipalities have more than 16,000 inhabitants, among domestic users, businesses, and companies, who will benefit from the transforming of their installation to natural gas. ■

LARGE CONSUMERS

Regarding the large consumer market, in MRG we have increased the consumed energy with natural gas by more than 250 GWh/year, thanks to the new clients in the industrial, commercial, institutional markets, and homeowners associations’ boilers. The total amount of new supplies is 560 clients, which means a 9% increase regarding the previous year and a savings of 15,900 tons or CO₂ emissions.

We can highlight the supply of natural gas to three hospitals, at the beginning of 2019, located in the municipalities of Leganés, Móstoles and Guadarrama, which represents

a significant savings in the exploitation account of these public health centres. For another year we have aimed our efforts at obtaining maximum collaboration with all Administrations to transform boiler rooms to natural gas. Throughout this year, we have transformed up to 50 rooms that used polluting fuels like coal or diesel.

In our commitment to continue contributing to improving air quality in our city, in MRG we have continued collaboration, and will continue doing so in the future, with maintaining the Madrid Community Renovation Plan and the new incorporation of a line of aids by the Madrid City Council to the homeowners associations by means of the new quality and sustainability protocol Madrid 360. ■

MARKETS

Regarding the residential market, and despite the regulatory uncertainty that has characterised the sector in 2019, Madrileña Red de Gas has had a gross growth of more than 15,000 new supply points, which shows the stability of the gas market.

On the other hand, the actions taken by MRG in 2019, aimed at increasing the supply points in the vertical saturation market, have consisted in extending the collaboration agreement with the Madrid Association of Installation Companies (AGREMIA), that already has the active participation of 310 companies. This represents a 3% increase in new collaborators regarding the previous year. Also, we have extended the collaboration agreement for developing the Renovation ►

Plan for Boiler Rooms with the Madrid Community Energy Foundation.

Another outstanding fact is the creation of new commercial companies aimed at favouring greater implication in the commercialisation of new natural gas supply points by installation companies associated to AGREMIA.

Likewise, we have consolidated the commercial call centre for captivating and activating supply points, with the putting into service of 16.5% of the leads followed. This represents a gross growth of clients by 3.2% over the year 2018.

Regarding the horizontal saturation market, in the last quarter of 2019 we have started important commercial campaigns. These

campaigns have been mainly focused in five municipalities: Talamanca del Jarama, Guadalix de la Sierra, Los Molinos, Soto del Real and Pedrezuela, where we have started to supply 1,400 new points. To do that, we have used both commercial companies, and civil works contractors for the construction of new networks, and installation companies. In all, more than 6,500 metres of network and 269 new supply points are aimed at giving service to more than 450 potential houses.

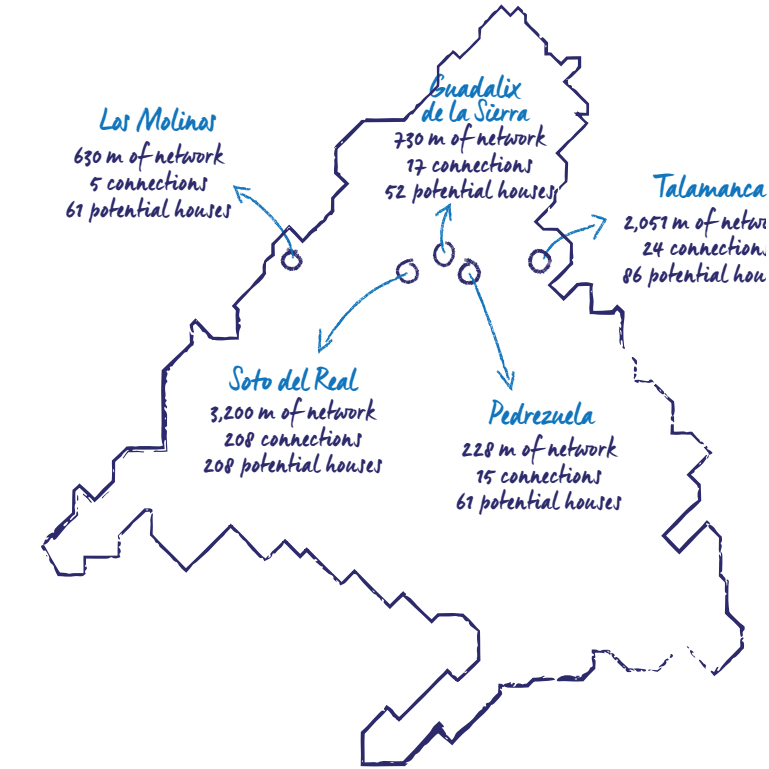
In new constructions, the work of MRG in 2019 has been aimed at increasing the visits to promoters, to increase the added value of direct management between promoter-distributor. That way, we have offered more alternatives for the deployment of natural gas

in new housing; among others, the promoting and application of the preinstallation of NGV for the single family residential market (Los Satelites promotion, in Majadahonda), the hybrid heat pump or gas chimneys, regarding geothermal, aerothermal energies, etcetera.

Others MRG activities in 2019 have been the signing of agreements with land promoters, the increase of new urban development viabilities in our scope of action, and the development and implementation of an application that allows the analysis and location of all the new promotions in the MRG cartography, as well as reporting works status. ■

Special commercial actions to acquire new clients

4th quarter 2019



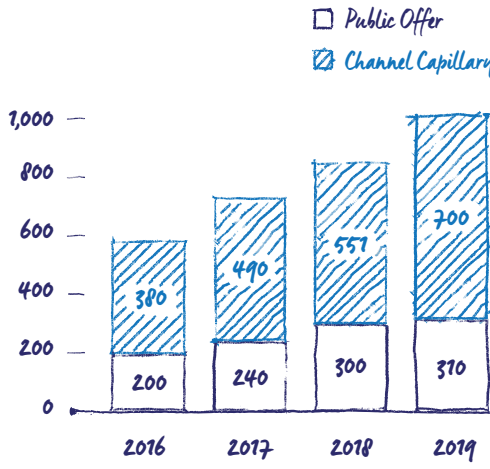
New supply points in 2019

Gross data

Inhabited building	10,816
New building	3,721
Large consumers	556
Total	15,093
New LPG accounts	312
LPG conversion	1,286
Gross growth	16,691

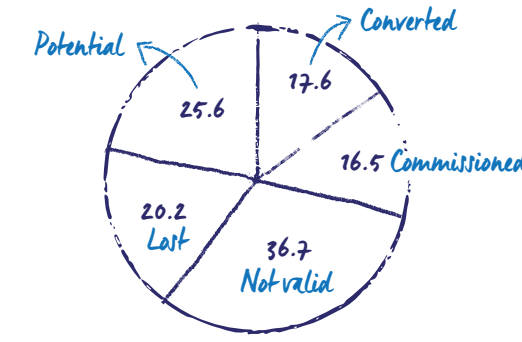
Development Nº installation companies

Total according to channel



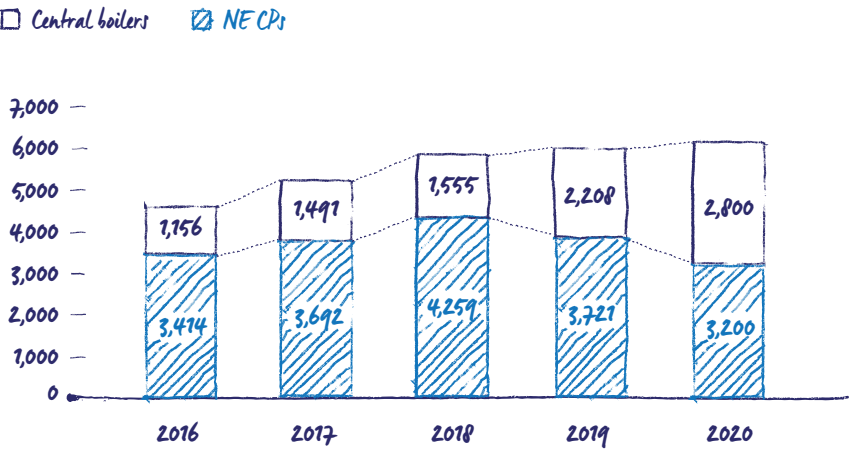
Commercial leads generated by telephone and website campaigns in 2019

(%)

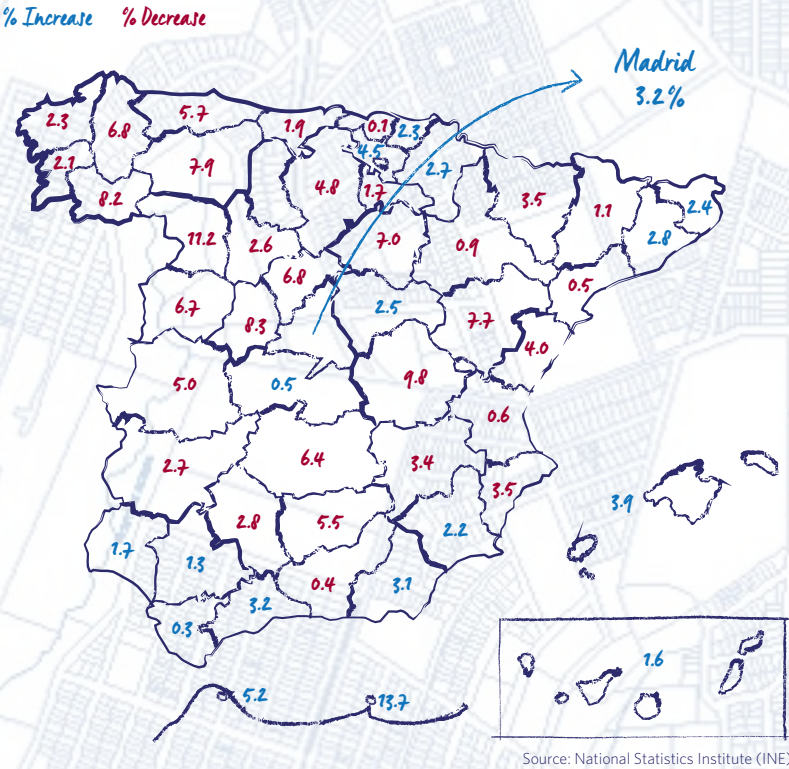


New edification evolution

Total according to boiler type



Evolution of the population in Spain
2010-2019



Demographic growth
in 2019 in the Autonomous
Community of Madrid,
area of activity of MRG,
increased faster
than other regions

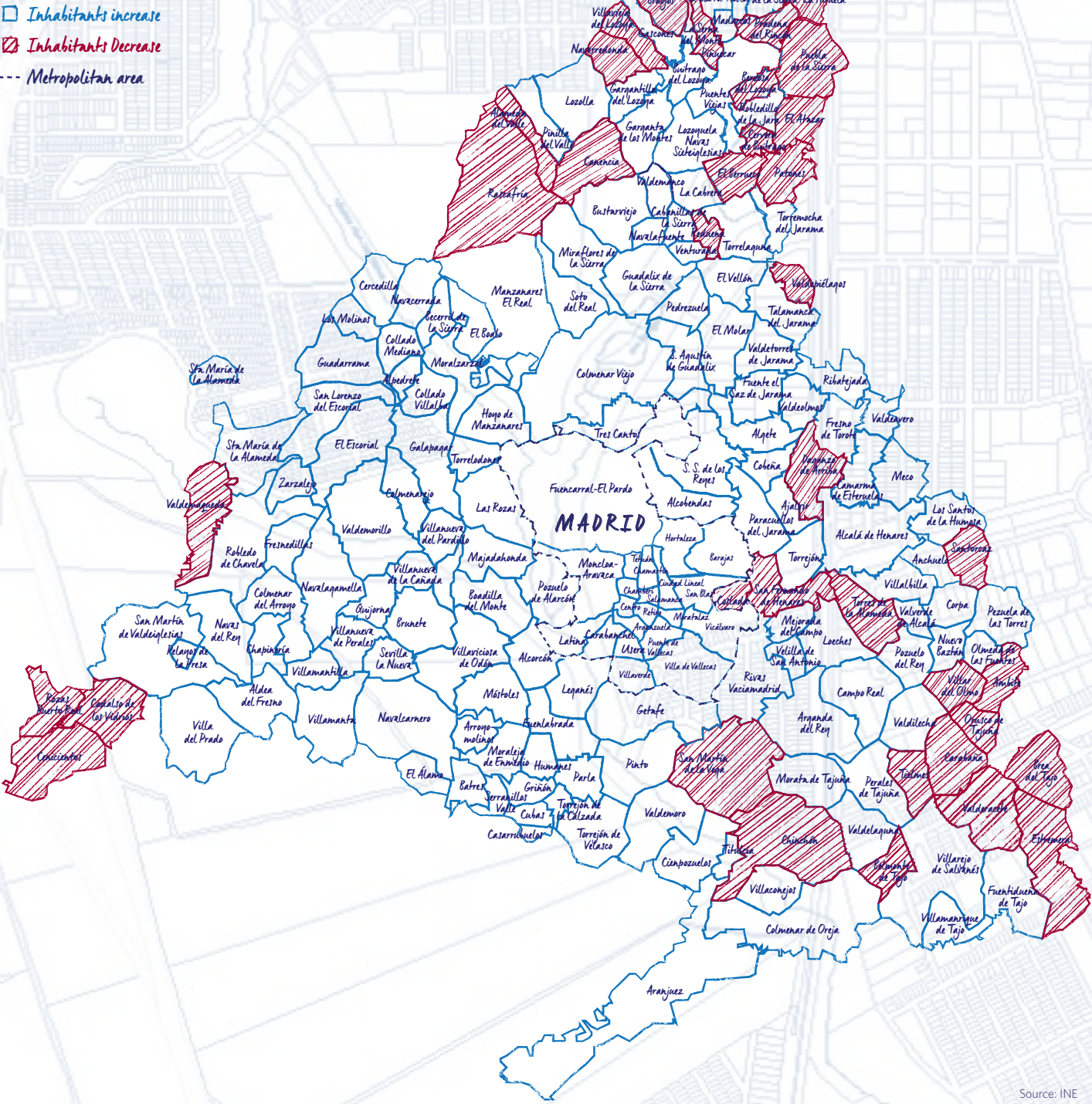
DEMOGRAPHIC ANALYSIS

The population of the Madrid Autonomous Community increased by 85,315 inhabitants during 2019, and reached the amount of 6,663,394, which means a demographic increase of 1.28% over the previous year.

The action scope of Madrileña Red de Gas in the Madrid Autonomous Community shows consolidated growth.

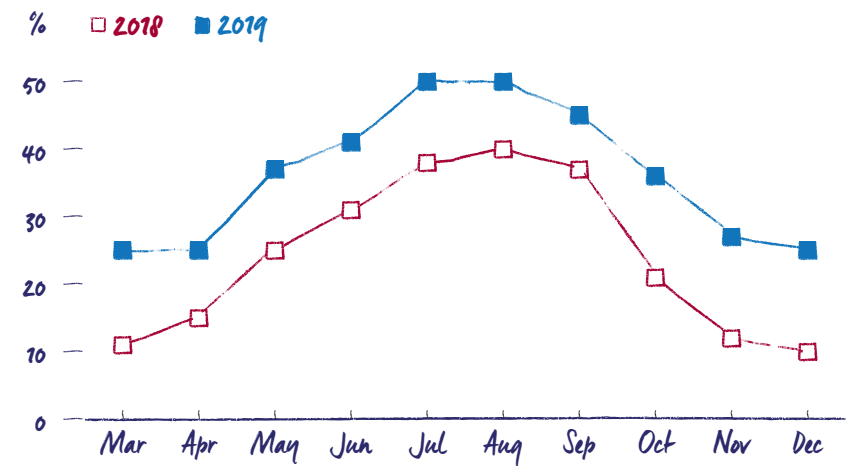
By municipalities, after the capital, the greatest increase in absolute value is in the municipalities of Móstoles (+2,089 pop.), Boadilla del Monte (+1,944 pop.), Alcalá de Henares (+1,898 pop.) and Parla (+1,868 pop.), all municipalities supplied by MRG. In percentage terms, there has been an average increase of 1.6% The municipalities that have grown more are Boadilla del Monte (+3.56%), Miraflores de la Sierra (+3.45%) and Talamanca del Jarama (+3.42%). ■

Demographic growth of the Community of Madrid
By municipalities and districts, 2019



Evolution of Telemetering

Percentage of total distribution between March and December 2019



The easy and rapid processing means considerable time-saving that can be dedicated to other more important tasks in the company. Likewise, the possibility of interaction with other applications of the system allows operating, unifying, and comparing different billing data with other normal operation data of the company, greatly reducing mistakes, because all the information is automated and standardised. With this reduction of paper, we contribute to protecting the environment, because digitalised documents represent less consumption of natural resources.

Therefore, in 2019, MRG has reached an agreement with the sales companies by which the industrial billing in this year was carried out electronically, which has allowed telemetering 3,000 customers, to obtain more real readings and improving large consumer customer processing. This has allowed expediting

management and payment of bills by the sales companies, because of not having to wait for paper bills, and allowing quicker and easier client searching processes, filing, etcetera, without requiring physical space for later filing.

All that translates into a reduction of paper throughout 2019 of 240,000 sheets, with a savings of close to 65,000 Euros per year, and in less environmental impact, energy consumption, and CO₂ emissions.

Likewise, in our virtual office we have implanted «eBill LPG», so our LPG clients can pay their bill through the virtual office and have it quicker, in addition to being able to obtain copies without the need to request them through the phone-call platform and without any additional cost.

Until now, 5% of the 23,190 LPG users have used this new format. Today we have a total of 1,200 «eBilled» clients and we have obtained a savings of 2,000 euros per year,

On the other hand, and with the objective of increasing the volume of telemetered gas in our network and having greater control of the same, as well as anticipating the change of the proposed regulation, throughout 2019 in MRG we have intensified the use of telemeters for clients under 5 GWH/year, with tariffs 3.4 and group 2 high pressure. That way, in this year we have increased by 2,419% the telemetered clients. Specifically, we have increased from 138 telemetered clients to 3,476, maintaining the ratio of daily energy recuperation of the mentioned devices at 97.26%, with an increase of the quantity of real telemetering in the distribution of 61% regarding 2018, increasing from 1.3 to 2.1 TW.

All that has allowed us to reduce fraud, decreasing the estimation part in the daily distribution and facing possible penalties for differences between daily and monthly distribution with better guarantees, as established in technical management regulations of the system.

Likewise, and to assure the quality of the distribution and identify and resolve any discrepancies that could arise, MRG has conducted a series of internal audits that have facilitated reducing the differences between the daily and monthly distributions.

Home Operations

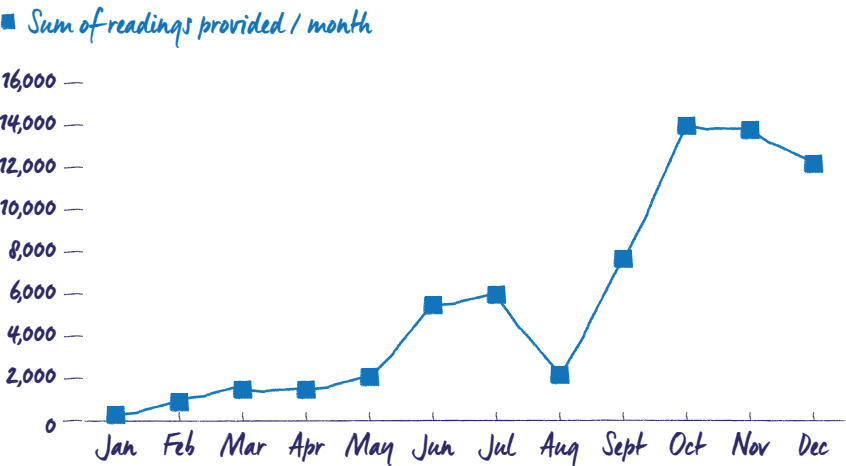
One of the purposes of the company, regarding home operations, is to do them rapidly and efficiently without altering the daily routine of our clients.

In MRG we have adapted our periodical inspection (PI) processes to be able to notify by e-mail, text messages, or any other digital means the compulsory PI to our clients. Also we have improved the procedures for interruption of the service in those gas installations that have not passed the compulsory periodical inspection, or in the cases in which the deficiencies detected in the gas installations during the inspection have not been corrected. Regarding the costs of the physical inspection, we have established rates that go from 30 Euros for natural gas installations to 65 Euros for LPG installations, according to the new demands of Decree 18/2019 in the Madrid Community.

Likewise, during 2019 work has been done on the monitoring and control of compliance with the PI appointments. We have managed to comply with the commitment with the client,

Evolution of readings provided - Virtual Office

Year 2019



We have managed to comply with the commitment with the client, on the agreed day and timeframe, with 99.6% of all periodical inspections

on the agreed day and timeframe, with 99.6% of all periodical inspections.

This data in the periodical inspections is the best of the last ten years: 94.5% has been achieved in the natural campaign and 97.7% of PI conducted of programmed inspections.

We have also started the «modernise facilitate without a sign» campaign consisting of the elimination of the meter reading using the communal notice and referring clients to our virtual office. That way, the mentioned reading is transmitted via a photograph of the meter and the bothersome billing errors are avoided, which appear due to erroneous transcription of ►

User evaluations according to type of operation

Survey taken with users after an in situ operation performed by technicians associated to MRG

Ordinary operation



Registry of supply point



Periodic Inspection



the data. Aimed at all those clients that are not found in their houses when the reading is taken by the authorised personnel, this campaign was conducted in 41% of the housing meters. The result was a 14% increase of the readings taken by authorised personnel, the doubling of reading provided by the client through the virtual office and the reduction of the NMWRR (number of meters without real reading), that has decreased from 6.5% to 4.5%.

Finally, after each of the field operations, in MRG we have conducted surveys through our website to evaluate the satisfaction of our clients to improve those aspects with which they had not been satisfied.

WhatsApp Channel

WhatsApp entered our lives some time go, and, thanks to the expansion of smartphones, it has also opened way in the work environment, becoming a very useful tool. Organise, arrange appointments, rapidly sending messages, documents, images, or reports enormously facilitates the work for any of those outside of the company. In projects where people are in different geographical points, it allows them to intervene and be up-to-date with the actions and the progress immediately.

Aware of this, during the last quarter of 2019, in MRG we have implemented the WhatsApp channel, so our clients can clarify doubts or process any request related to the periodical inspections and/or readings. This initiative has made MRG the first gas distributor in Spain that makes available for its clients the most widely used channel by the users.

This new channel is offered through the decision tree to the different options published in the interactive voice responses (IVR) of the Madrileña Red de Gas call centre, something that allows optimally publishing the mentioned channel.

Over the last months of 2019, WhatsApp Channel has been an excellent way for the digital transformation of our clients, because it allows them to manage their requests, through our virtual office with a maximum degree of autonomy. Likewise, using WhatsApp Channel our clients can rapidly send the photograph of their meter and easily send information or documentation. In addition, WhatsApp is the perfect channel for easily and dynamically giving service, because each

operator can transmit up to five simultaneous conversations.

This new channel makes possible that 60% of the requests obtain automatic response, thanks to the automation of answers using decision trees.

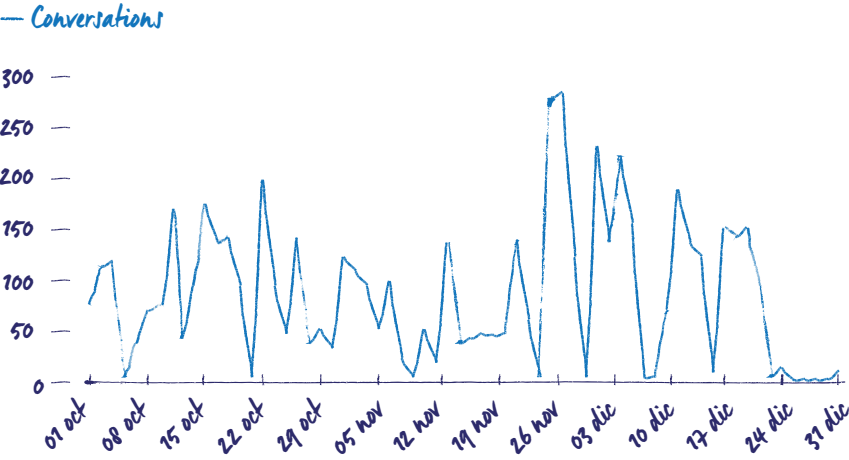
Call Centre

Knowing that the channel most used by the clients is the telephone (72%), MRG established the objective of reducing the volume in processing interactions with a telephone agent. To do that, we increased the options in the IVR of the call centre, with specific alternatives according to the most common requests, and we redirected our clients from the call centre to the virtual office, where the processing options have been increased and specific IVR created. This way, the MRG clients enjoy full autonomy for the processing of the periodical inspection visits and payment of bills at LPG points. Likewise, in the second half of 2019, the evening/night (6:00 to 9:00 pm) times and Saturdays were eliminated, that way reducing the hours of telephone service. All these actions allowed us to finish the year with a reduction of the volume of calls by 37% and 32% regarding the years of 2017 and 2018, respectively.

For better client experience, another of the objectives we established for 2019 was the implementation of the new IVR, that offers the possibility of being able to confirm or rearrange the date of the visit for the periodical inspection without the need for contacting a telephone agent. Also, we have implemented a new IVR for processing the LPG bills, from where payment of these bills can be managed by connecting with the La Caixa IVR. ►

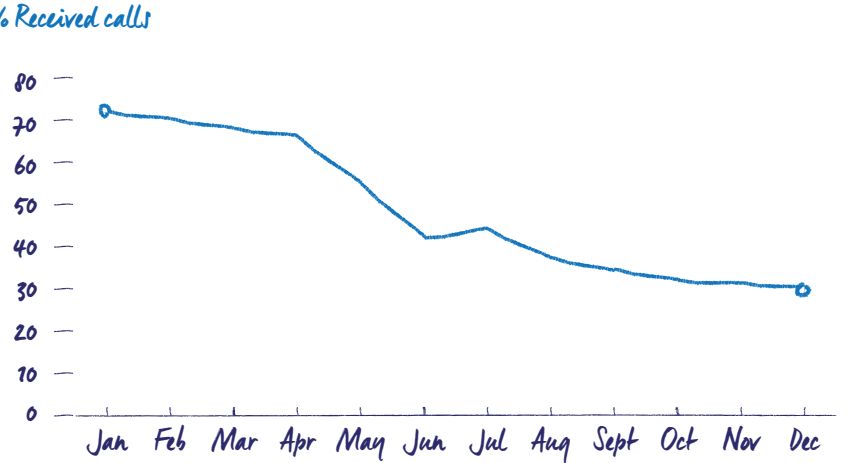
Weekly evolution of the number of conversations through WhatsApp

4th quarter 2019



Evolution of interactions with telephone agents

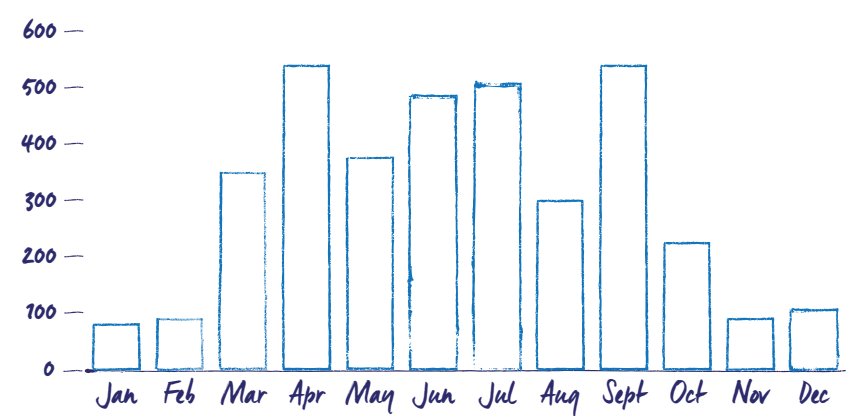
January - December 2019



During the last quarter of 2019, in MRG we have implemented the WhatsApp channel, so our clients can clarify doubts or process any request related to the periodical inspections and/or readings

Evolution of complaints - Virtual Office

Monthly data 2019



The introduction of these bots (artificial intelligence software) in the virtual office has meant that 95% of the claims made through this channel were closed in the same day

Virtual Office and Business Channels

In line with this will of adapting to the new scenarios that technology brings, and with the aim of performing a total digital transformation that focusses on client experience, in MRG we are progressively implementing the use of bots (artificial intelligence software) to respond to the needs of our clients and be able to offer better services day by day.

These bots allow browsing the claims section of the MRG virtual office, through solutions, according to the request in question. The client has access to all the information needed to resolve the processes clearly and simply. In the case that the solution of the request

depends on the sales company, the client is referred directly to the same. Also, other alternatives are shown through the different virtual office sections. In those cases in which a request cannot be resolved automatically, the possibility of making a claim is given by means of a form that reaches the MRG back-office to be dealt with.

The introduction of these bots in the virtual office has meant that 95% of the claims made through this channel were closed in the same day. Our objective is to reach 100% in 2020, as well as creating chat-bots that make the experience of our clients more agreeable and their interaction with the client support more rapid and simple.

On the other hand, we have automated the management and closing of the most normal types of requests on the energy sector common system (ESCS), channel connects the sales companies and the gas distributors to process the requests for information and/or claims related to the processes of their clients.

Because they are requests associated to massive processes, mainly linked to meter readings, periodical inspections, direct debit operations, billing and basic requests processed through the ESCS (new supplies, cancellations, disconnections due to lack of payment, changes of sales company, and account holders, etcetera), the objectives of this automation have been centred on optimising the response from the sales companies. The result has been the reduction of the communication periods and of the interaction volumes to be resolved by the MRG back-office, which has allowed

us to free resources and dedicate them to other things.

This has also made possible that in 2019, 100% of the rebilling requests have been automated, if the meter reading is provided, as well as 50% of the ATR/tariff contracts, 40% of the non-conformities with the billed reading and 20% of the new activations for a new supply.

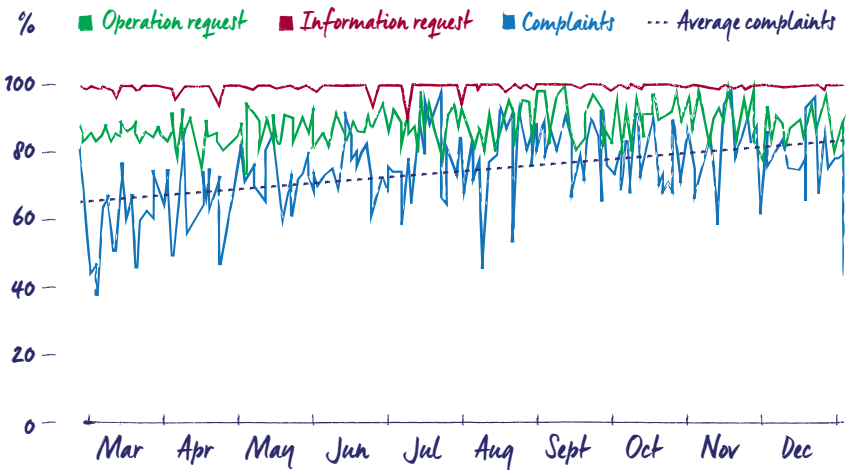
In addition, thanks to the implantation of a common action protocol for all MRG business units that establishes the steps, filters, and processes necessary for meeting the objectives marked for 2019, our business units have managed to process 95% of the requests received during the same day in the back-office of the different departments. This is something we feel satisfied with because client experience has improved, as well as the assessment that the mentioned clients give of our company.

Likewise, a daily follow-up of all the requests registered in the systems has been established so verification can be made of when they are closed, if it is same day or the next day. Thanks to that, we have been able to analyse those values and processes where non-compliances have occurred and we have improved them.

The implementation of the virtual office is worth mentioning for the acquisition and personalised service of new supply points in the expansion area. Madrileña Red de Gas has developed a direct channel with the end user, who we guide and accompany in the entire online contracting process. Since its implementation in the last four months of 2019, 20% of the gross growth of supply points we have put into service was managed through this new channel. ►

Closing of requests on same day

March - December 2019



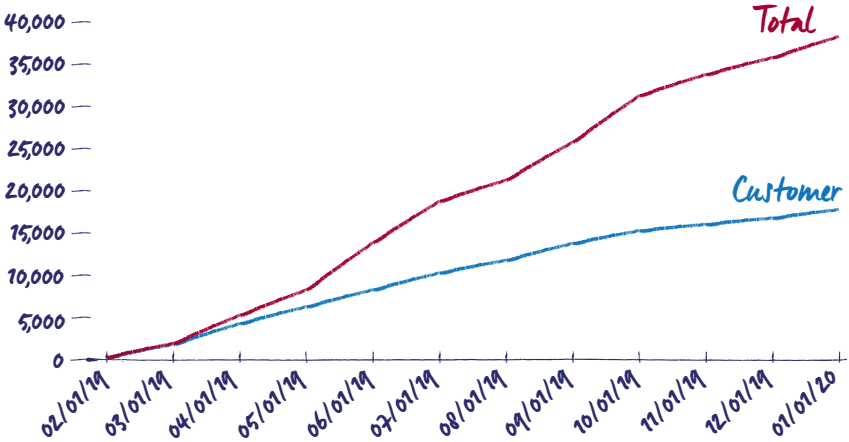
New supply point requests - Virtual Office

Growth 4th quarter 2019

	Supply points	%
Virtual Office requests	1,791	31 %
Effective commissioning	1,151	20 %
Requests rejected	640	11 %
Total	5,773	-

Appointment changes

12 months



DARwin Project

At the beginning of 2019, we launched the DARwin Project, with the purpose of evolving our culture and our systems and processes towards a total digital transformation that places the client at the centre of our strategy.

Under the DARwin framework, in MRG we have launched a series of innovative initiatives in the client experience field: the new website and the client service website, the new communication channels, like text messages, email, and WhatsApp, robotization and automation of processes, availability of online checking and changing appointments, real time managing of work orders, availability of electronic billing, or the new system for servicing emergencies. This new project has been possible thanks to the collaboration among work groups with mixed business teams, systems and developers, also to the

implementation of agile methodologies, to the presentation of progress and of the achievements in face-to-face sessions, the sending of newsletters and the creation of meetings with top level companies, like BBVA and Amazon.

DARwin is the engine to reduce to 1% the number of claims from all the clients and improve the resolution period to one day.

Within the different initiatives included in DARwin, a virtual office is projected to which, in addition to changing its design to a more functional and modern one, it was given functions that allow our clients to have all the information to process with greater independence their requests and avoid long waiting periods.

Thanks to DARwin, users who still do not have gas in the house can very easily process a new account: only having to introduce the address of the supply point and complete a questionnaire with personal data. From its start, this new option for the user has seen more than 2,000 new requests for supply in only six months.

Mid-March 2019, we introduced in the new virtual office the self-appointment service, which has been received very well. Now our clients not only can request, change, modify, or cancel an appointment, but also, in the case of there not being a date available on the agenda, request a demand for action so our extended company can process it in the least time possible. Like in the call centre, the Madrileña Red de Gas extended company has access to this function and can interact with the client online to expedite the processing. This

new self-appointment service has favoured the modification of more than 1,700 appointments.

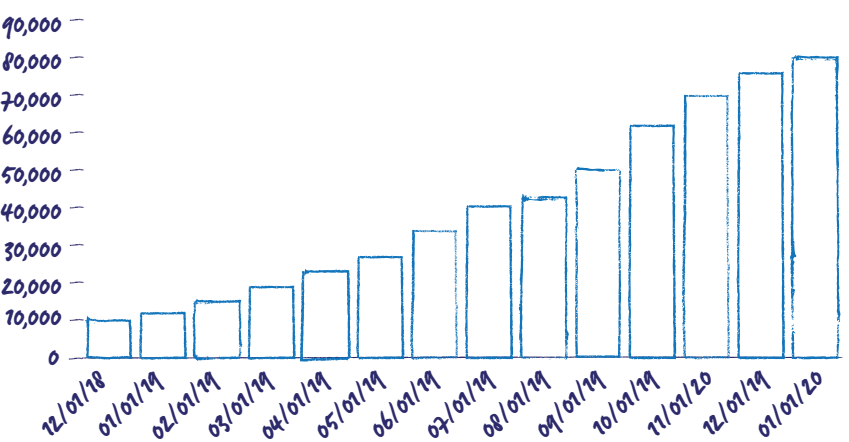
Currently, growth of the number of registries in the MRG virtual office has been exponential: from 10,000 users registered in 2018 we have increased to more than 80,000 currently registered.

«Real time» is another DARwin initiative. To obtain greater satisfaction of our clients we need to establish a relationship through «fluid conversation», in which we inform them of the status of their processes. This also allows us to notify them in advance of our interventions. By making any process from the virtual office, the systems we work with are all updated at the same time and in real time, this way our clients immediately know the status of their requests, as well as the information related to the same. If a client creates a work order, a notification will be received automatically through email and/or a text message. In the case of any change being produced in the client data, in the supply point status, etcetera, this will be immediately replicated in all the systems where that order exists.

Likewise, any order which is notified to a field operator reaches our online systems and the client can see it in real time. If an order is cancelled by the client, or by any open process, the change is notified to all the systems and the process is shown so that date can be used by other clients. On the other hand, the changes and the notifications to clients, or the live planning of our extended company operators can be seen online by the administration of our systems. Also, the distance to the supply point from which a work order is reported can be seen, and that way facilitate the work of our extended company. ►

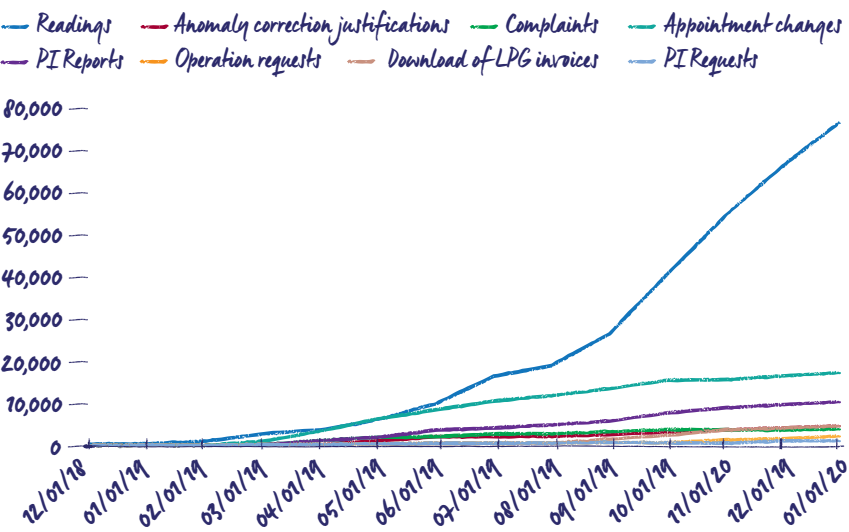
Evolution of number of registrations in the Virtual Office

December 2018 - January 2020



Information received through the Virtual Office

December 2018 - January 2020



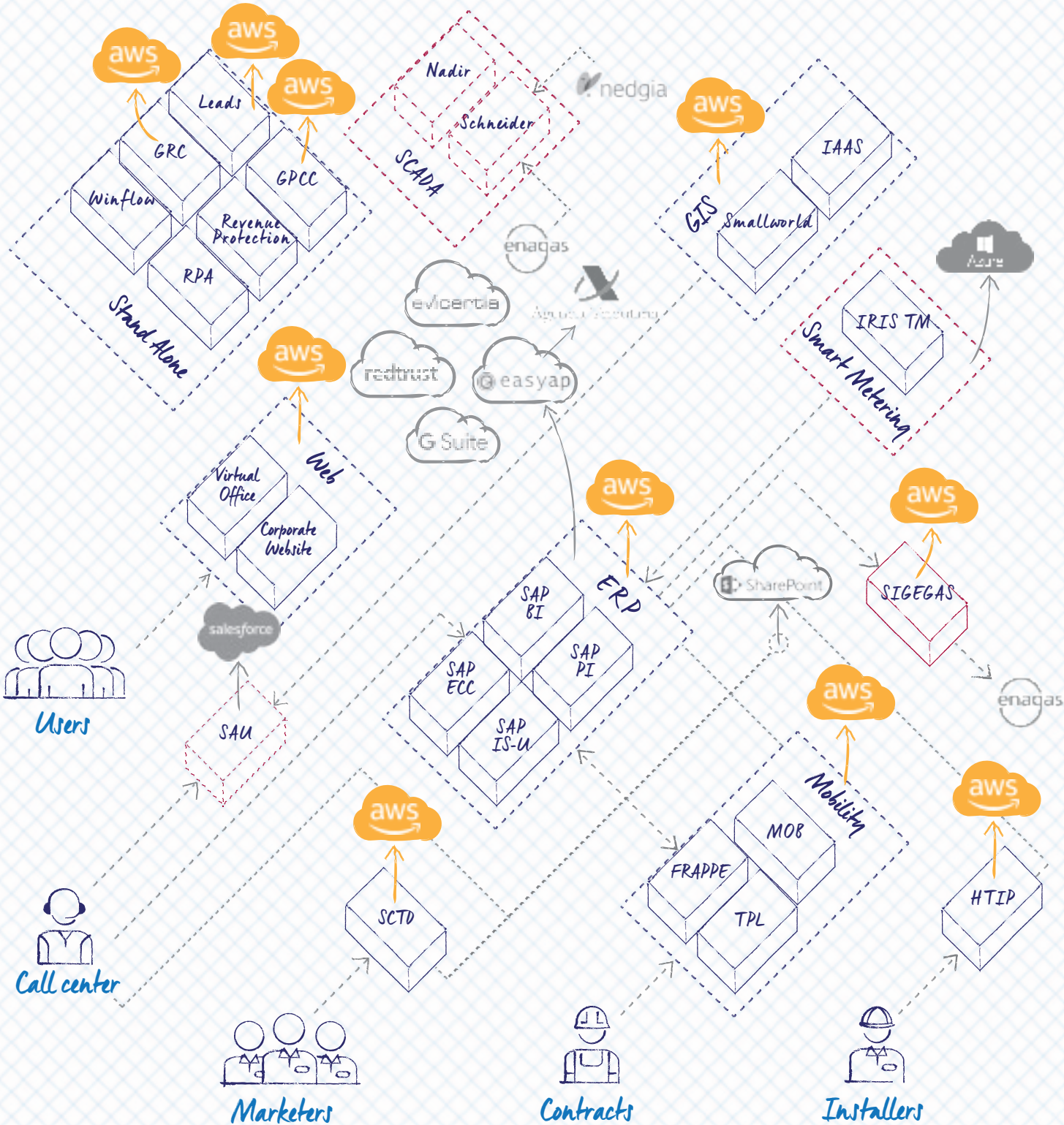
Systems Architecture

Everyone knows that Amazon Web Services (AWS) is the worldwide leader in public cloud infrastructure, especially for SAP environments, guaranteeing availability of the service at 99.99%. Therefore, and because it also offers a model for payment by use and the facility for growth, evolution and agility that MRG requires to approach projects in the short term, halfway through 2018 we decided to migrate our infrastructure to the AWS public cloud. This meant an ambitious plan in scope and timeframes to have in AWS all the MRG applications (production and development environments, excepting the SCADA) with a minimum impact on business operations.

The project was completed within the expected period of three months, which allowed us start 2019 with all our systems in AWS, after the migration of more than 50 applications, and assuring communication and security. All that has allowed the company to optimise infrastructure costs, redesign the architecture of some of our applications to improve their performance and availability, and propose new initiatives with solutions provided by AWS regarding the internet of things, machine learning, and big data. ■

System architecture diagram

- AWS:** Amazon Web Services Infrastructure
- Evicertia:** Digital signature system and certification services
- Redtrust:** Electronic signature system with Public Administration
- SAU:** Emergency Attention System
- Easyap:** Invoice processing system
- ERP:** Operational, and economic-financial resources planning system in SAP
- Frappe:** Collaboration, management, and mobility application for contractors
- GIS:** Geographical information system
- GPCC:** Data acquisition system for new supply points
- GRC:** Corporate risk management system
- GSuite:** Collaboration and productivity applications
- HTIP:** Application for communication with installation companies
- IAAS:** Geographical information system
- Iris TM:** Communication system for smart meters
- Leads:** Potential clients system
- MOB:** Collaboration, management, and mobility application for contractors
- SCADA:** Distribution network data acquisition, control, and supervision system
- SCTD:** Transport-distribution communication system for interchanging of messages among marketers and distributors
- Sigegas:** System for communication and information to Enagás
- Smallworld:** Geographical information system
- Revenue Protection:** Fraud simulation system
- RPA:** Robotization and automation of processes
- Smart Metering:** Communication system for smart meters
- TPL:** Collaboration, management, and mobility application for contractors
- Winflow:** Flow simulation system



In MRG we decided, halfway through 2018, to migrate our infrastructure to the public cloud of Amazon Web Services (AWS), which has allowed us to start 2019 with all our systems in AWS

NETWORK

Form the MRG control centre we maintain constant coordination, supervision, and control, of all our equipment. This requires qualified personnel and flexible means in permanent evolution to allow us to maintain the surveillance and control of our networks, as well as supporting the workloads required by any structural or technological change. We can proactively, efficiently, and securely process for our users, the services offered and with a comprehensive and global perspective.

In year 2019, the modernisation of the system for servicing emergencies has allowed us to improve coordination with the rest of company systems

Improvements in the network analysis simulation system, applying the new availabilities of the information systems incorporated by the company in 2019, has allowed us to obtain precision analysis adapted to the reality of our distribution network behaviour.

Thanks to that, we have increased the network points, improving the management in those potentially vulnerable areas, and we have continued maintaining strict control of the distribution network to monitor possible deviations that could arise in the field of losses. Likewise, this has allowed us to commence the project of replacing obsolete communications of our telecontrol systems, adapting them to new technologies.

On the other hand, MRG is immerse in the mobility project to optimise works and resources and in the maintenance of the

telecontrol system and in adapting cartographic areas to official cartography.

Another year, we can highlight the optimal management of refilling our satellite plants, with the result of zero failures in the supply to associated towns.

Regarding management of emergencies, we maintain maximum efficiency, speed of deployment, support and maintenance facilities required by each element of our control centre.

In year 2019, the modernisation of the system for servicing emergencies has allowed us to improve coordination with the rest of company systems. Proof of that is the implementation of the mobility programme to deal with emergencies on the field, which includes optimisation and improvement of flows of information between the control centre and field operations.

Started in 2019, applying the synergies of activities of the MRG intervention teams and the emergency services company, the field checking campaign of all the vectors participating in the LPG supply service have managed to improve the quality of information from both clients and receiving installations like the cartography information and the detection of incidents in the metering equipment, avoiding risks in personal security and improving quality of the reading.

During this year, the number of actions of our personnel attending to emergencies has increased both in dealing with requests and in programmed preventive maintenance operations.

Likewise, in MRG we continue maintaining ratios for attention to request of maximum priority below than 30 minutes average. For the tenth consecutive year, the number of serious accidents related to the distribution activity is zero.

Likewise, MRG has closed 2019 with a level of success of 95% in the processing of claims for damage produced in our networks by external agents, and the emergency coordination team has distributed the deliveries outside of the normal working hours without incidents or penalisations.

Regarding the preventive maintenance activity, in MRG we have carried out 100% of the plan established by current legislation and the internal company regulation on the 6,138 km of network, including the auxiliary installations, the five satellite LPG plants and the 258 existing LPG plants, performing for that more than 22,000 programmed actions.

Regarding the regulation systems, the correct operation of the different pressures has been managed, that way guaranteeing adequate supply to all our clients. The biannual regulatory surveillance of the gas network and the leak tests control has been performed on the 3,158 km of the gas network (more than 7,500 valves and more than 2,000 cleaning and painting actions of the network elements, as well as revising the more than 2,000 cathodic protection units ensuring steel networks).

In the action framework of renovation of the materials installed in the 1970s decade, MRG has renovated the meshes and performed the necessary corrective actions to maintain

optimal safety conditions and guarantee in the supply of the natural gas and LPG networks. Materials like steel, castings, or copper have been replaced by polyethylene tubing.

An important aspect of the maintenance work in 2019 was the coordination with 21 Madrid Community councils for the correct dismantling of 130 LPG plants. This operation has required the emptying, burning, and making 194 tanks inert. 200 road trips have been made to transport the gas to other MRG plants. The waste obtained by the decommissioning and transport to the waste treatment plants created by the Madrid Community has been transported always respecting the regulation and the MRG commitment with the environment, without interfering in the normal dynamics of users and neighbours.

Other outstanding aspects are the adaptation of safety systems for the detection and disconnection of gas for the gasification rooms of 27 LPG plants. Also, the performing of 2,086 road trips of LPG cisterns that have guaranteed the daily supply to the more than 22,000 clients that use this type of gas (a volume of more than 17,000,000 kg of LPG supplied in the year).

To comply with our commitment to the environment without ceasing to offer an even more efficient service, in 2019 the mobility management project was started in the maintenance area, with the objective of totally eliminating paper in the daily field work and reaching the full automation of these processes. ■

Human capital

In MRG we are committed to gender equality and talent. With the objective of using our professionals as natural agents for change, we have conducted innovation and change management programmes, training courses, and surveys to know the needs of our team, that for another year has been renewed with new hires.

FORCE FOR CHANGE

Innovation and change management are essential instruments in a reality in constant transformation like ours. Therefore, Madrileña Red de Gas has assumed the commitment for enabling the creation of new opportunities in the gas sector that places the company at a referential position in the market.

We are aware that our professionals must be trained and able to communicate, transmit, make, and connect ideas with action facing new challenges, anticipating the change and generating a flow of knowledge based on experience, their strong points, and their professional and personal values.

Thanks to the innovation programmes started by the company in 2019, the MRG professionals

are acquiring techniques for the implementation of new projects in which they can put into practice the acquired knowledge, like making a creative space or positioning in social networks.

Regarding change management, we have also developed the «Lead the change» course to prepare our professionals in the identification of opportunities and making them the natural generators of change.

Digitalisation is the ally of change and of innovation. Therefore, in MRG we have implemented new system tools aimed at attending to emergencies, telemetering management, and document management. During this year, we have trained out team in the use of «Power Bi», a new analysis tool

for measuring operational ratios that is going to allow dynamically managing and sharing information with the users, as well as being able to simply visualise it in only one report. This way, all the information can be evaluated in a single report, according to the processed defined by MRG.

This year has closed with a total of 50 training actions and with more than 5,000 hours of training given (an average of 40 hours per employee). ■

TALENT

Talent management has continued being one of the MRG priorities. Our strategy is that our professionals become more efficient and productive and is centred on two lines of action: the so-called organisational humanisation, based on corporate culture that prioritises the wellbeing of persons, and collective leadership, focussing on the obtention of results through motivation and team commitment to marked projects and challenges.

In our recruitment processes we try to have professionals that are open to promoting their creative and innovative capacity as main driving forces for productivity and competitiveness; more empathetic, and committed team leaders that consider the person and the entire team when taking decisions, capable of dynamically recognising, understanding, and foreseeing changing situations and contexts.

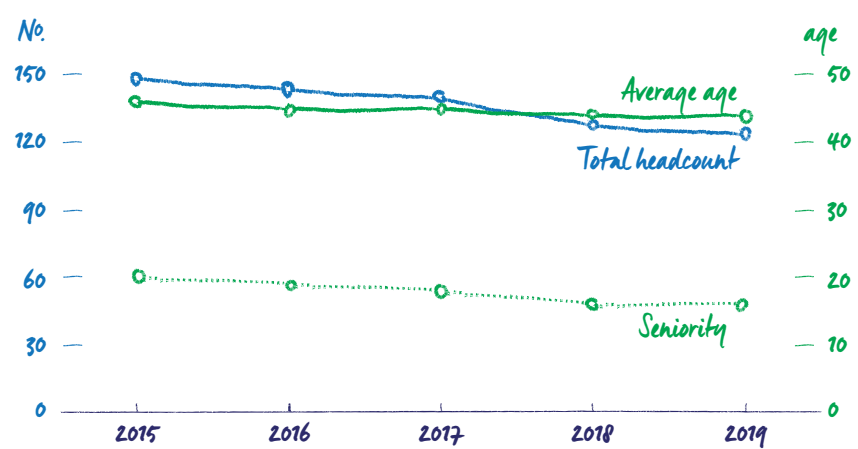
These changing contexts demand the generational renewal of the employees and the rejuvenating of our professionals, a process which MRG is progressively conducting, because we are aware that the mixture between

the experience provided by veterans and the levels of competitiveness and innovation of youths results in better management of future challenges. That way, over the last five years, the average age of our professionals has decreased by 4%. In the year 2019 the average seniority decreased from 20 to 16 years.

The commitment for the dynamization and rejuvenation of our professionals has translated into 7% annual staff turnover, over the last five years, with an average age of 33.

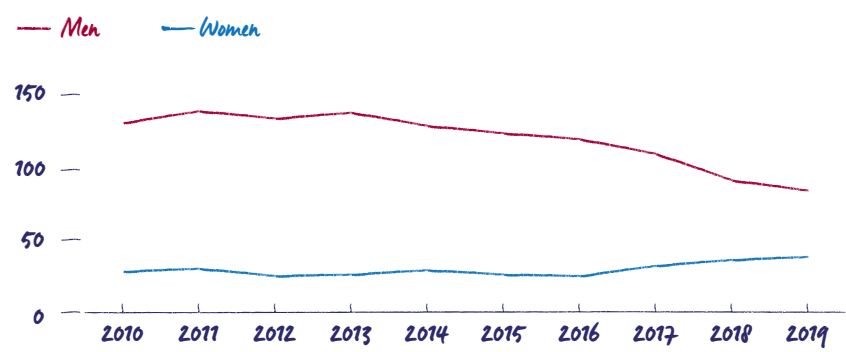
In this year, seven new professionals have joined the MRG team, which represents 6% of the total headcount: 57% of these new hires are women. With exception of one administrative profile, the rest of new hires are graduates and engineers, with an average age of 36. ■

Headcount evolution, average age, and seniority 2015 - 2019



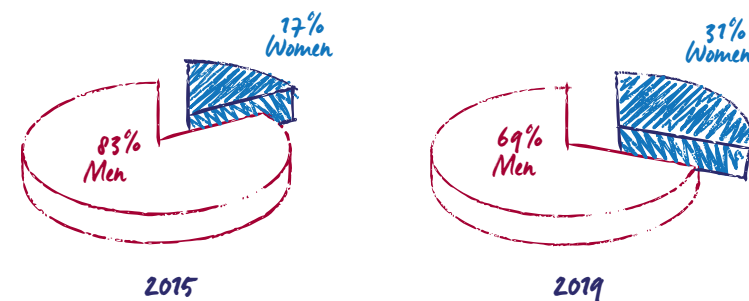
Headcount composition according to gender

Total headcount, December 2019



Proportion men/women of total headcount

Comparison between years 2015 and 2019



DIVERSITY

We know that commitment to gender diversity improves competitiveness of the companies and guarantees their sustainability, as well as providing another way of management. In MRG we want to be agents of change. Therefore, we put equality and diversity into value in our employment environment, promoting it from the bottom upwards with internal promotions, recruitment and training, same opportunities, and implementation of equality plans.

Regarding salary policies established by the company, the retribution will be equipped

for all the professionals performing the same functions, focussing on retributions based on skills and objectives.

Every day we work to conduct fair and equal recruitment and promotion processes, in which gender is not a discrimination factor. When analysing the suitability of the candidates, we are strictly based on their professional profile.

Likewise, we promote female talent with training and mentoring programmes focused on giving greater responsibilities and functions to women, to guarantee their professional growth and access to positions of greater responsibility and retribution.

Equally, our policies foster work-life balance, enabling the streamlining of working times, teleworking, and the approval of workday adaptations, both for men and women. This way, our professionals can deal with their responsibilities in the family. We also enable the reinstatement to the company after temporary periods of absence due to leave of absence, illness, or other circumstances. ■

EMPLOYMENT QUALITY

In MRG we understand human capital as the driving force of the company and the axis on which competitiveness and efficiency factors are sustained. Therefore, the adoption of measures that foster a good employment climate was a priority in 2019.

To evaluate the current situation and search for solutions to possible deficiencies that could be manifest in the employment environment, we have conducted a «climate survey». Thanks to this new initiative, we have detected that

our professionals were missing greater knowledge of the activities conducted in other areas of the company and greater feedback by the line managers.

In response to this demand, and as a proof of the commitment by the entire structure of the company, from the human resources department, and with the collaboration of the Board of Directors, two projects aimed at covering these needs have been promoted:

Evolution

The directors of our business areas programmed different sessions aimed at bringing their staff closer to the different functions conducted in their departments, and the links these have with the rest of business activities. The sessions were a success of participation and evaluation by those who participated.

Connect

This project was launched to «connect» persons and processes based on a new focus in performance assessment. This way, our professionals who actively participate in the project, obtain six monthly feedback. Through these meetings, they agree their PDI with their managers, being able to establish aligned training plans that allow them to reach their objectives.

On the other hand, MRG actions in 2019 have also been aimed at creating a healthy environment and habits to our professionals that results in benefit for everyone.

Currently, there is a greater level of awareness about the importance of physical exercise. There are several reasons, from alleviating

We have detected that our professionals were missing greater knowledge of the activities conducted in other areas of the company and greater feedback by the line managers

stress to losing weight, etcetera. Exercising is a great benefit for our health and improves life quality and our wellbeing both physically and psychologically. Therefor MRG, in addition to maintaining physiotherapy services and Pilates lessons, in 2019 we have created the Running club, where our professionals have a personal trainer who directs and focusses their training, to correct imbalances, avoid possible injuries and achieve good running techniques, all that accompanied by the use of tools and the application of the latest trends in the fitness world. ■

SAFETY AND RISK PREVENTION

The implementation of the Madrileña Red de Gas serious accidents prevention policy based on the Royal Decree 840/2015 (SEVESO III) regulating occupational accidents caused by hazardous substances is included in the «Safety management manual for prevention of serious accidents» and in the rest of procedures in which the management criterion for these very special assets must be applied.

In 2019, in the LPG plants all the necessary inspections have been completed with favourable results, in compliance with article 21 of the mentioned Royal Decree. Likewise, information has been provided to the DGI about the situation of these assets and the notifications of closing of the LPG installations for their detachment regarding the mentioned regulation. Also, we have reinforced the

emergency plans by means of writing addenda, performing simulations, and giving specific training.

In addition, in MRG we have implemented self-protection and emergency policies in the LPG plants with storage below 30 tons. We have also published and distributed the explosion protection documents (EPD) of the LPG plants, prioritising those affected by Royal Decree 393/2007, as well as by the Electro-technical low voltage regulation, and the perceptive visits for five-yearly inspections by OCA to the LPG plants have been made related to the mentioned regulation.

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Likewise, we have carried out the monitoring of development of the improvement plan for safety conditions in the plants: periodical surveillance visits rounds, cameras, signage, perimetral fences of the installations, telecontrol systems (SCADA), etcetera, and the criterion related to connections between installations, safety valves, electrical installations, overfilling and cutting off systems. Also suitability evaluations have been made for the action procedures defined in the emergency and self-protection plans of the average size LPG plants, as well as new rounds of information sessions and emergency drills. The self-protection plans of the LPG plants have been revised and significant modifications have been made in the plants.

On the other hand, from among the diverse external protection service actions, we can highlight the start of the risk evaluation revision of the work centre, the periodical campaigns for medical health checks for the evaluation of personal risks of especially sensitive staff, and preventive notes.

Madriileña Red de Gas is still committed to cooperating with the competent authorities by remaining adhered to the «Bonus» system established by Royal Decree 231/2017. Once again, another dossier has been satisfactorily resolved with the subsequent reduction of the contributions for professional contingencies due to the contribution of MRG to the reduction and prevention of occupational accident rate.

Regarding to the transport of hazardous goods by road (ADR), the annual visits of the safety director to the LNG and LPG have been conducted, and the reports published extracting the necessary preventive and/or corrective measures. Also, the perceptive annual report has been prepared for the safety director for communication to the competent authority. Likewise, the internal regulation «PRL-833 - Safety management in the transport of hazardous goods» has been revised, new legislation and criteria have been included, training in the transport of hazardous goods by road has been given, and the procedures for unloading the LPG plants have been revised

In relation to the policy of prevention of risks in activities with the potential presence of explosive atmospheres (ATEX), the implementation of these policies has been achieved in all the facilities. Likewise, different enquiries have been resolved related to the LIE detectors in the RMS and boiler rooms, the

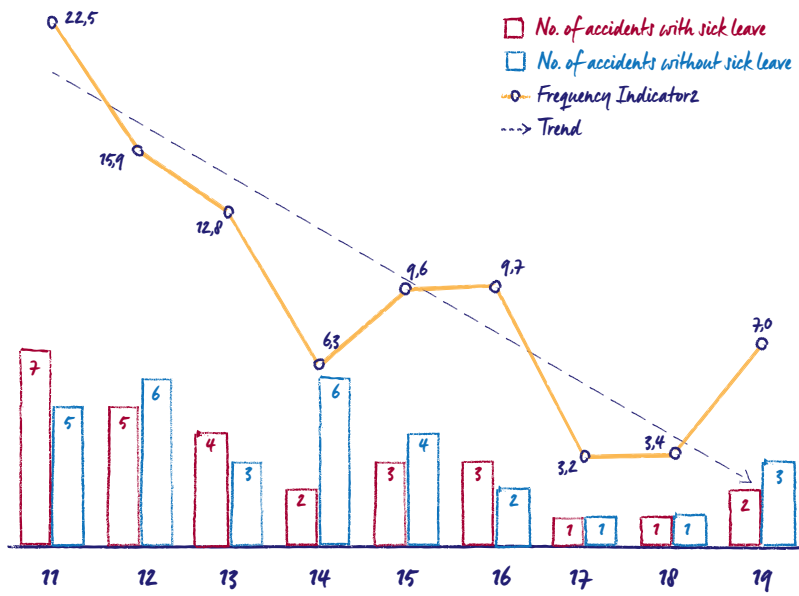
application criterion of the regulation in the scope of receiving installations, or the flame extinguisher devices.

At the headquarters of the company we have conducted business activities coordination actions regarding occupational risk prevention, because of several works for adaptation of the internal space, as well as the installation of solar panels on the roof of the building. On the other hand, an action criterion in situations of concurrence of our personnel with those of third parties has been established to the effects of adequate cooperation in occupational risk prevention.

Regarding the interchange of prevention documentation, performed through the external documentation control service, the mentioned service is monitoring document control of 133 contractor and subcontractor companies, as well as a thousand workers of the mentioned companies, with a volume in excess of 10,100 documents. Likewise, in 2019, MRG has continued to implement documentary exchange actions with new contracts, and the identification of the parameters and documentary requirements that are subject to supervision has been reviewed, such as those related to jobs with electrical hazards.

These documentary controls are completed through direct supervision in the field, which was already started in previous years, through which the effective application of a large number of preventive measures and the documentation provided are checked in order for them to be correct. The result of these visits to supervise activity is communicated to the MRG contractors for their knowledge and implementation of improvements. In a

Evolution of workplace accidents in MRG
2011-2019

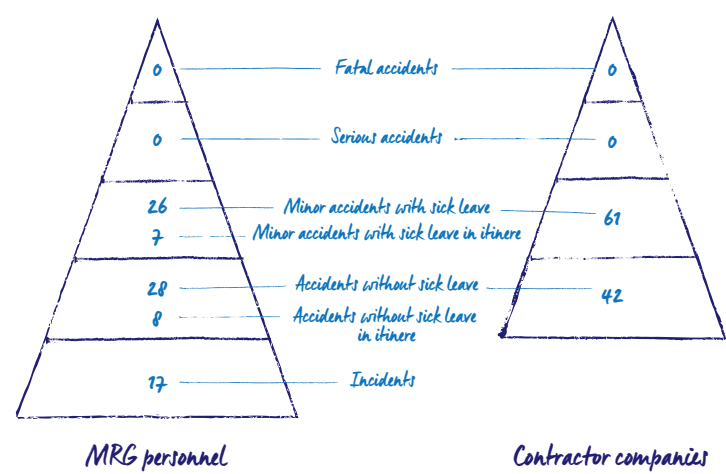


NOTE: The Frequency Indicator is defined as the number of accidents with leave during the working day for every million hours worked.

complementary manner, periodic follow-up meetings are held with the supervisors in the field to promote the usual dialogue with the prevention technicians of the main contractors and establish effective communication channels. In all, there have been nearly 244 operational control visits, distributed among the entire range of relevant activities.

True to its policy of giving occupational risk prevention information to interested parties, MRG has continued improving the content available in its prevention information channel, allowing access to both company workers and to our extended company, so that access to the updated editions of the occupational risk prevention information is guaranteed. ►

Description of the severity of accidents
2011-2019



In January 2019, and for the second time in our history, we reached the milestone of 12 consecutive months without accidents with sick leave not while travelling. Later, two occupational accidents not while travelling with sick leave, and three accidents not while travelling without sick leave have been reported, which has caused an increase in the frequency index.

Regarding personal protection equipment (PPE), collective protection and clothing, we have continued with the good practice of periodical external revision of the rescue tripods, the safety harnesses, and other elements of this group. Likewise, we maintain direct communication with our normal equipment and materials suppliers, which facilitates access to the information about new equipment and materials arriving on the market.

For activities that involve the execution of construction works, periodic monitoring of the health and safety managers’ activity is conducted. In 2019, the use of preventive management documentation has been extended for the works without projects and there have been meetings of the Health and safety committee, following up the most relevant subjects related to occupational risk prevention.

Finally, the development of quality management during this year has been characterised by the focus applied to the improvement of processes, in addition to continuing with transition project of the quality management system to adapt it to the requirements of the new revision of the ISO 9001:2015 standard.

Also, the management model of steel networks has been revised, identifying opportunities for improvement regarding the certification of materials, supervision figure in the welding process, and authorisation of the participating personnel. Likewise, the management model for assets with electrical supply has been revised and improvements related to the minimum requirements to be applied in the different existing scenarios, specific training of our personnel, and the complete renewal of electrical installations have been established.

Regarding the quality system according to the ISO 9001:2015 standard, we have updated the quality indicators, focussing attention on the most relevant parameters of critical processes. Likewise, development of the «processes map» has continued from the quality perspective, increasing the initial two level focus to three. Level 1 shows the complete photograph of the processes, while level 2 gives a description of

each numbered process in greater detail; level 3 identifies those in charge of the processes and the most outstanding regulatory requirements. This processes map offers a more transversal and in-depth view of the most essential activities of the company.

On the other hand, the environment and scope of the regulation updating services have been revised to adapt them to the needs of the company. ■

INTEGRATED MANAGEMENT SYSTEM

The activities conducted in the MRG risk management area during this year have been aimed at continuing the project for adapting the prevention, environment, and quality managements to the ISO 45001:2018, ISO 14001:2015, and ISO 9001:2015 respectively. The content of different internal regulations of the integrated management system and the internal auditing procedures and training has been revised.

Likewise, all the inspections of article 21 of Royal Decree 840/2015 SEVESO in the LPG plants have finalised, with favourable results, that way completing a first cycle of inspections. Also, many documents for protection against explosions in LPG storage centres have been prepared, as well as the processing of preliminary and closing reports of contaminated ground of the mentioned storage centres.

In 2019 we have also developed a self-protection and emergency model defining the policies that must be applied in small size gas storage centres, and in the regulation stations of the gas distribution network. To estimate the fugitive emissions of methane from the distribution

In 2019 we have also developed a self-protection and emergency model defining the policies that must be applied in small size gas storage centres, and in the regulation stations of the gas distribution network

network, we have opted for a methodology by events and the adaptation of the control panel and indicators of quality management has been adapted to the needs of the organisation and the improvement of processes related to management of steel networks and assets with electricity supply.

Likewise, an analysis of the series of UNE-CEN TS 15399EX and PNE-EN 15399 standards, with the objective of planning the addition to our management system of those good practices linked to the gas sector.

On the other hand, to parameterise and digitally develop the processes related to the integrated management system for prevention, environment, and quality, we have used the «Incaweb» management tool, which is being adapted to the needs of the company, with the development of operational control visits and reports from the directors for the safety of hazardous goods transport. Even in the partial implementation phase, the tool has already been used in several management system processes, like the objectives of the system, the planning of inspections, or the corrective actions. ■

Gas and society

In 2019, the registration of new vehicles using CNG has increased up to 60% of all registered vehicles, with a fuel savings of 50%. Also, the participation of MRG in diverse work groups stands out in the promotion of gas consumption in different sectors.

NGV
Natural Gas Vehicles (NGV) has experimented considerable growth in 2019. The number of registrations has increased up to 22,814 vehicles, which means 60% growth. The weight represented by both lightweight and heavy transport vehicles in these figures is worth highlighting.

On the other hand, the compressed natural gas cars (CNG) registered in Madrid, require special mention. In 2019, this has reached 60% of all registered cars, reaching 74% in the case of CNG van registrations, and 57% in the case of truck registrations. These figures respond to the important refilling infrastructure existing in the Madrid Community, which this year has added two

new CNG service stations (one public and the other private).

Companies, professionals, and private individuals find in CNG a very economically favourable alternative, with savings between 25% and 50% in fuel and an acquisition cost comparable to petrol or diesel vehicles.

Likewise, CNG vehicles are a less polluting alternative with all the benefits that the ECO label involves, being compatible with the use of biomethane (there are already successful experiences), which means that, in these cases, the car is really ZERO emissions.

If we link to all the above that today refilling CNG cars in companies or at home, is now

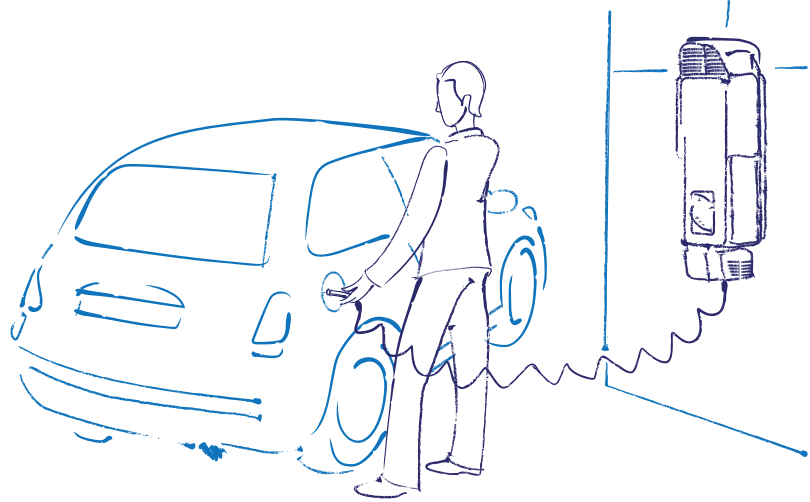
possible thanks to the installation of slow charge compressors that are directly connected to the existing gas installation, it is therefore confirmed that these vehicles are a real alternative to the use of other more polluting fuels. In addition, they offer the users greater comfort, because they can refill directly at home. ■

BIOMETHANE
MRG continues participating in the different work groups including companies, associations, and public bodies with the aim of promoting the integration of renewable gas (biogas, synthetic gas, and renewable hydrogen) in the energy mix. This means trying to become a core pillar to achieve the objectives of our

Compressors NGV

According to field of use

	Company use Compressor FMQ 2.5	Private use Compressor Phill
Dimensions:	540x500x990 mm	762x356x330 mm
Weight:	66 kg	43 kg
Output pressure:	207 bar	207 bar
Electrical power supply:	230 V	230 V
Electrical consumption:	0.9 kWh	0.7 kWh
Flow:	2.8 m³/h	1.4 m³/h
Acoustic emissions:	49 dBA @ 5 mt	40 dBA @ 5 mt
Input pressure:	17-50 mbar	17-50 mbar



country according to European directives for the fight against climate change, improving air quality, penetration of renewable energies, and circular economy.

Before June 2021 Spain has the obligation of transposing the European Directive RED II, which commits Member states so that the contribution of advanced biofuels and biomethane, as part of the end energy consumption in the transport sector, or, ►

at least of 0.2% in 2021, of 1% in 2025, and of 3.5% in 2030. In turn, the Draft Law on Climate Change and Energy Transition establishes among its requirements the implantation of a certification system that allows its supervision and control.

The GET 25 (Temporary Specific Work Group) was created in April 2019, to prepare UNE Specification biomethane guarantees of origin, in which MRG has participated very actively

In this sense, an important regulatory development is necessary; specifically, the method for certifying origin guarantees to contribute to the launching of renewable gas in Europe, as already occurs in the rest of European countries.

The GET 25 (Temporary Specific Work Group) was created in April 2019, in which MRG has participated very actively. The objective is to prepare an UNE Specification about biomethane origin guarantees. These renewable guarantees of origin (GoO) could be commercialised and/or used for distribution, also being adequate for certifications.

It is expected that the UNE Specification is finalised during the first quarter of 2020. The Administration is responsible for designating the competent body for managing these certificates and for implementing a certificate registration platform about how to conduct the monitoring and traceability of these certificates.

MRG is in the position of being able to distribute biomethane by our distribution networks without the need of any other

additional intervention or adaptation of existing infrastructures, because biomethane is interchangeable with conventional natural gas.

In Madrileña we are working, together with the Sedigas Renewable Gas Committee, in the design of a website that will be a reference for renewable gas in Spain, which offers quality information to all stakeholders in the value chain (producers, operators, end clients, public bodies). Its launch is expected for the end of 2020.

Likewise, in 2019 MRG has signed with the Canal de Isabel II water company an agreement of confidentiality that promotes the study of possible biogas injection originating from its waste water treatment plants in our distribution networks, adding value to the existing gas infrastructures. ■

IDENTIFICATION AND EVALUATION OF ENVIRONMENTAL ASPECTS

Biodiversity Protection

Human activities are reducing biological diversity in the whole planet. The extinction of animal and vegetable species is one of the most worrying consequences, not only because of being an irreversible process, but because biodiversity is the guarantee of balanced operation of ecosystems. Therefore, conserving biodiversity means sustainably managing the relationship with nature now and for future generations.

Respect for nature is, and must be, a priority for protecting and preserving the environment and its biodiversity. One of the main objectives that we propose in MRG is

the protection and conservation of our natural heritage, assuming and promoting from the company that environmental commitment among the workers, based on small habits or practices related to the care and respect for the environment in which we operate, acting consciously and responsibly with the environment, because protection is the responsibility of everyone.

In 2019, a rare event occurred in the history of the company. A pair of storks installed their nest during the brooding period on the crown of one of our cryogenic LNG storage tanks. After analysing the potential implications of this event from different perspectives, to be able to act in accordance with that established in our environmental policy as to the protection of biodiversity, and to respect the current legislation of protected species, as well as protecting the safety of the installations, authorisation was requested to the competent authority for the removal of the nest, with the challenge of recovering the stork eggs. Therefore, experts were consulted about the subject, planning the procedure to be followed in detail. Under coordination by the health and safety department of the company and with the participation of the plant maintainer, with the surveillance of forestry agents, as well as with a specialised company in the removal of nests and the help of a large size crane, we managed to save the eggs that were in the nest, remaining under the temporary care of the forestry agents for transfer to the Madrid Community wild animal recovery centre. After some time, they gave us the happy news of the birth of the stork chicks, that, after a period of captivity, were released into freedom.

To protect both the birds and the MRG installations, different studies and technical proposals have been made aimed at preventing the making of future nests on the mentioned installations that could endanger the integrity of the birds and their chicks.

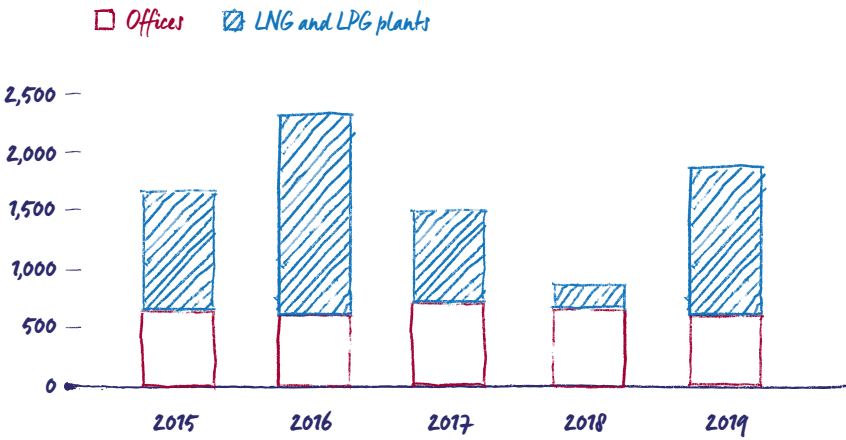
Environmental Magement

One of the Madrileña Red de Gas environmental management cornerstones is the operational control mechanisms. These are implemented by means of revising aspects of the environmental management activities, compliance with the construction and demolition waste management plans, and monitoring of the inerting water from the LPG tanks in the plants designated for decommissioning. Likewise, these on-site controls are complemented with documentary controls of the waste management records that must be included in the works' dossiers.

One of the MRG environmental management cornerstones is the onsite control mechanisms of the construction and demolition waste management, and monitoring of the inerting water of the LPG tanks in the plants designated for decommissioning

On the other hand, the MRG environmental policy establishes among its principles the prevention and management of environmental incidents that could occur during the development of our activity. This year, a spill on the road due to a failure of one LPG cistern was managed. ►

Water consumption
(m³)



NOTE: 2019 includes, for the first time in the data series, LPG plant consumption.

Energy consumption: facilities and vehicles¹

	2017	2018	2019
Electricity in offices (kWh)	319,396	312,069	202,156
Electricity in network and LNG plants (kWh)	114,016	153,413	148,246
Natural gas in offices (kWh)	19,144	18,812	15,304
NGV (kg)	32,838	29,762	21,928
Petrol (l)	2,267	1,468	1,355
Diesel (l)	0	0	0

1 The statistics do not include the consumption of the vehicles of the sales personnel nor those of the private vehicles of employees placed in a timely manner at the disposal of the company.

Likewise, and because of new legislation related to the self-consumption of electricity production, during the last quarter of 2019 solar panels were installed on the roof of the MRG headquarters.

Another fundamental axis of MRG actions regarding the environment are the diverse assessments given both internally and to our supply chain regarding waste management, environmental risk control, and good environmental practices.

Additionally, the dialogue with the stakeholders and the interest groups has been reinforced during this year, being worth of special mention, for its significance and transcendancy, the communication to the Madrid Community and to the SEDIGAS sectorial association of the information about fugitive emissions of methane from the distribution network. It is also worth to mention the participation in the environmental survey from the National Institute of Statistics, the environmental information report to the GRESB platform, the communication of the reports about closing contaminated ground to several town councils of Madrid Community municipalities because of the decommissioning of LPG plants.

The methodology for estimating fugitive emissions of methane from the gas distribution networks was revised during this year, after being agreed at sectorial level. This way, MRG is aligned with the methodologies by events being used by other EU countries. This method integrated field data to define methane emissions according to different typologies, which allows building a database to include all types of events that generate

emissions, calculating with greater precision the characteristics of each one.

With the by events method, CH₄ emissions are independent of the length of the tube (ancient lineal methodology). The results obtained with this method are based on annually updated data that reflects the best practices applied to the construction and maintenance of networks, derived from the safety and environment action plans conducted. That way, the method by events allows designing and applying improvement procedures that significantly contribute to reducing methane emissions.

To calculate by the events method the volume of gas emitted, the following emissions are considered:

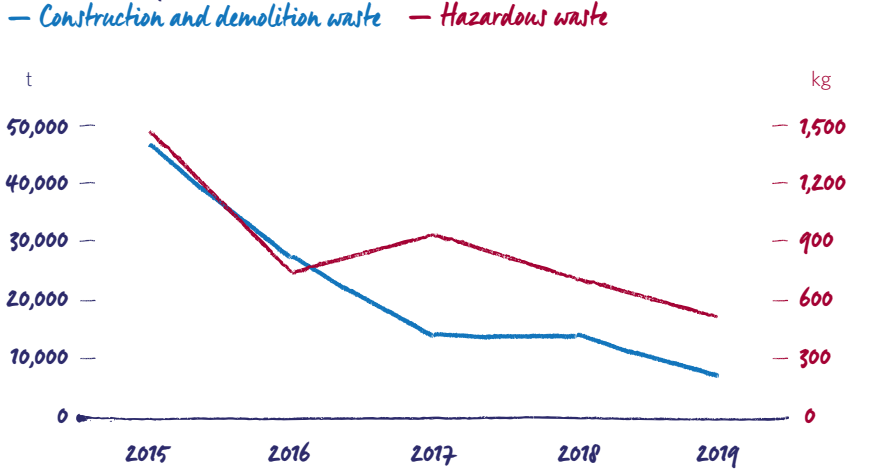
- Intrinsic emissions: emissions by leaks due to holes or small cracks detected by tracking in networks and supply points, to Polyethylene permeation (PE) and to leaks detected in the periodical inspections of receiving installations.
- Incidental emissions: emissions due to leaks by damage to the network and/or supply points detected by our personnel, third parties, claims or incidents, as well as those leaks in common or individual receiving installations (IRC/IRI) corrected while servicing emergency requests.
- Operational emissions: emissions produced in events due to normal system operation. These occur during the commissioning of our networks or during the disconnection. Also, those motivated by maintenance of the existing networks and/or installations. ►

Fugitive emissions of methane in the distribution network

	2016	2017	2018	2019
Old methodology ¹	61,272	61,779	62,369	–
New methodology ²	–	–	717.1	299.5

1 The estimated fugitive emissions depends on the materials of the network, its lengthand conversion factors.
2 Estimation by events used after 2018. Most of these emissions originate at receiving installations.

Waste management



Evaluation of Environmental Aspects

The most significant environmental aspects to be considered by MRG when establishing our environmental policy objectives, are established by internal regulation by means of a methodology for the identification and evaluation of those aspects associated to processes, activities, services, work centres, and vehicle fleets. This way, we can define their real or potential impacts on the environment and establish operational control on them.

The most significant environmental aspects for the company, when establishing our environmental policy objectives, are established by internal regulation by means of a methodology for the identification and evaluation of those aspects associated to processes, activities, services, work centres and vehicle fleets

The matrix with the identification of impacts and direct, indirect, and potential MRG environmental aspects includes the description of the activities and processes associated with each area, operating conditions (normality, abnormality or emergency) and the time factor. That way, the environmental aspects analysed are as follows:

- Generation of atmospheric and particle emissions; useless, deteriorated or obsolete electrical and electronic equipment waste; special and/or hazardous waste; solid urban and similar waste; construction and demolition waste; spills; discharges; and noise.
- Consumption of fuels, electricity, chemical products, and water.

Regarding the evaluation of direct environmental impacts, MRG considers toxicity, the receiving means or destiny, and the quantity. Referring to indirect environmental aspects, only toxicity, and the receiving or generating means are considered, and to evaluate the seriousness of potential environmental impacts, the frequency and severity of the event consequences are considered.

Lastly, it is essential for Madrileña Red de Gas to maintain a control panel of environmental indicators, the results of which serve for feedback for the identification and evaluation of environmental aspects, as well as for establishing management priorities of the environmental risks of our activities.

Contaminated Ground

The change of use and contamination of the ground is a serious global environmental problem, with extremely costly and complicated solutions. But, above all, an unacceptable risk for protection of human health and the ecosystems, because any pollutant present in the ground is susceptible to entering into contact with any receiver with adverse consequences for our health and our environment, therefore the importance of preventing the contamination before it happens.

In Spain, ground contamination is regulated by Law 22/2011, of 28 July, concerning waste and contaminated ground and by Royal Decree 9/2005 of 14 January, and later developments, which establishes the list of potential ground activities and the criteria and standards for the declaration of contaminated ground.

Most LPG plants are included in the application scope of the current regulation regarding ground contamination. Madrileña Red de Gas is committed to presenting to the Madrid Autonomous Community the preliminary ground reports (PGR), the situation monitoring reports, and the detailed characterisation reports for the closing of the activity.

Within this framework we have defined a pluriannual work plan, applying a prioritisation criterion on those installations that because of their characteristics, represent greater risk of potential ground contamination.

The methodology for preparing these reports coincides with that established for the detailed investigation phase in the Ground Quality Investigation Guide, and the Risk Analysis Guide, both published by the Madrid Community in the Regional Action Plan concerning contaminated ground of the Madrid Community, as well as in the «Technical instructions for human health risk analysis», in the scope of Royal Decree 9/2005, of 14 January, in the Madrid Community (July 2011).

In the year 2019, Madrileña Red de Gas has presented 117 LPG plant reports to the competent authority and has received 107 resolutions, therefore it only needs to present the mandatory periodical status reports every seven or ten years, in the case of LNG plants and, every ten years in the case of LPG plants.

Likewise, 65 LPG decommissioned plants ground closing reports have been presented and until now 40 resolutions have been received from the competent authority.

Finally, and in the case that MRG detects signs of problems on the site, derived from the activity being carried out in the plants, it may be necessary to conduct a second phase of the reports aimed at the analytical characterisation of the ground, consisting in taking samples of the ground close to the potential contamination points to be analysed in laboratory. This action is being conducted ex officio in LPG plants of singular characteristics. If because of the analytical characterisation the general reference levels are exceeded, MRG will commit a third phase of risks identification and quantification. And in the case that the presence of unacceptable risks is detected, there will be a fourth phase for defining the quality objectives for ground recovery. ■

In 2019, MRG has submitted 117 LPG plant reports to the competent authority and 65 LPG decommissioned plants ground closing reports. 107 resolutions have been received for the first ones, and therefore MRG will only need to submit the compulsory periodical status reports every seven or ten years

CARBON FOOTPRINT

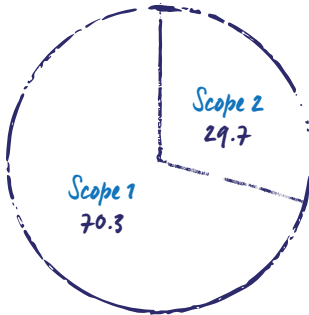
Any activity conducted by any company, organisation or human being produces a direct or indirect emission of greenhouse gases that affect global warming and planet sustainability.

The calculation and analysis of these greenhouse gas emissions (GHG) or «carbon footprint» allows identifying the main sources of emission throughout the life cycle of products or services offered by companies, giving support for the taking of eco-efficient ►

The graphs show the results of scope 1 and 2 GHG emissions and the global result. Because of the importance of GHG emissions of fugitive leaks through gas wastage in the global results, the results obtained are shown as an example without considering the mentioned component.

Carbon footprint (no gas wastage)

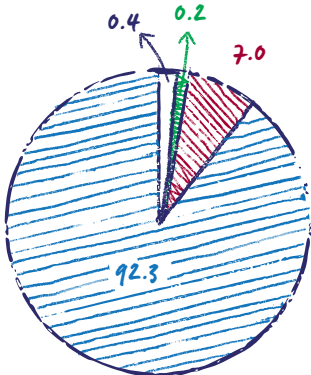
Distribution of emissions by scope (%)



Carbon footprint (no gas wastage)

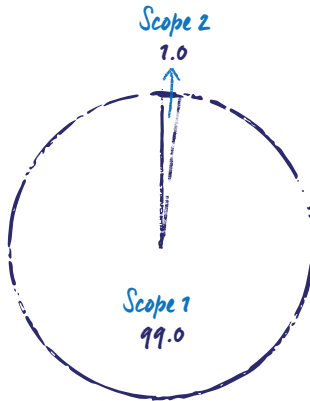
Distribution of emissions by GHG type (%)

- CO₂
- CH₄
- N₂O
- GFEI



Carbon footprint

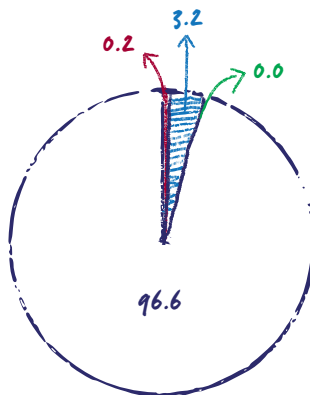
Distribution of emissions by scope (%)



Carbon footprint

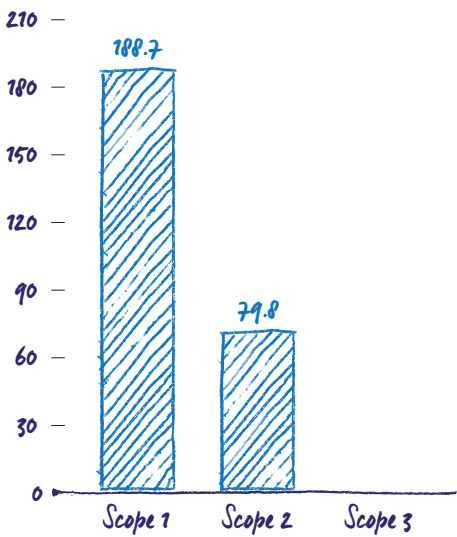
Distribution of emissions by GHG type (%)

- CO₂
- CH₄
- N₂O
- GFEI



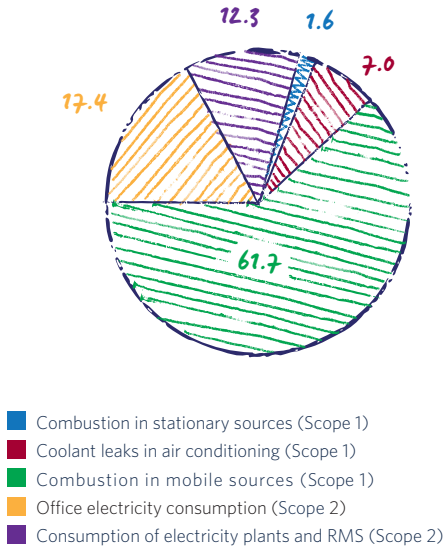
Carbon footprint (no gas wastage)

Emissions by scope (tCO₂e)



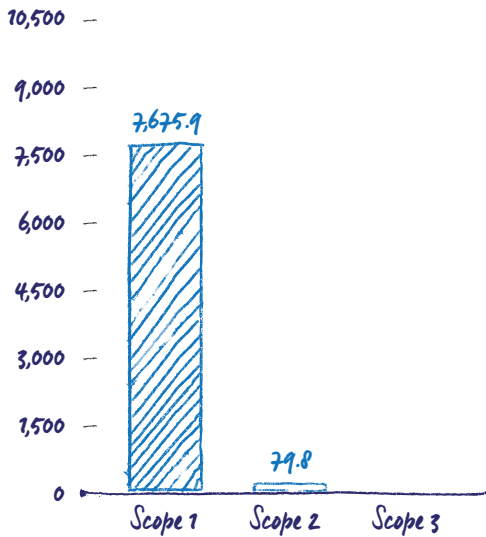
Carbon footprint (no gas wastage)

Distribution of emissions by source type (%)



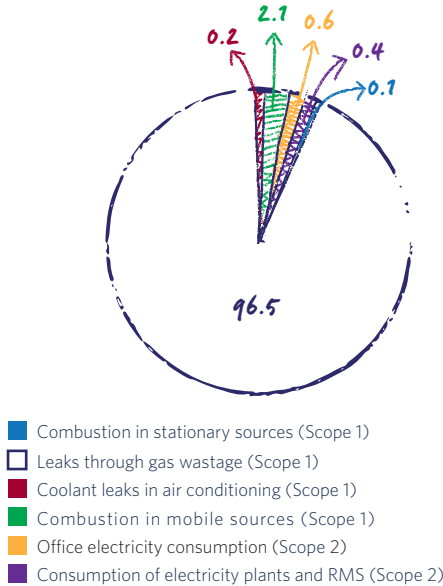
Carbon footprint

Emissions by scope (tCO₂e)



Carbon footprint

Distribution of emissions by source type (%)



decisions that allow developing strategies and projects to facilitate reducing and mitigating these emissions not only due to environmental causes, but also as an element that can affect competitiveness and sustainability of any company.

Therefore, the carbon footprint is the best indicator of the eco-efficiency of any company, and the first step to optimise its management, because emission reduction also means a reduction of energy consumption and, therefore, economic costs.

The Madrileña Red de Gas CF report 2019 (of scopes 1 and 2, not verified by external sources) has considered the methodological requirements established by public documentation, like the emission factors for the calculation of the emissions, prepared for the Carbon footprint record, compensation and absorption projects, created by Royal Decree 163/2014, of 14 March, which created «the carbon footprint record, compensation and carbon dioxide absorption projects», as well the methodology for quantifying methane emissions by events in gas distribution systems (Sedigas), contemplating the following scopes and limits:

- Central offices of Madrileña Red de Gas.
- Distribution network of natural gas and LPG.
- LNG and LPG plants belonging to MRG distribution network.
- Fleet vehicles.

All results are reported in CO₂, applying the warming potentials indicated in the *IPCC Fourth Assessment Report* and in Regulation (EU) 517/2014, of April 16, 2014, «on fluorinated greenhouse gases, which repeals

Regulation (EC) 842/2006». The GHG included in the carbon footprint: CO₂, CH₄, N₂O, HFCs, PFCs and other fluorinated greenhouse gases.

Scope 1

Direct greenhouse gas emissions, these originating from sources owned or controlled by the company.

- Combustion in stationary sources (DHW boiler for offices and steam boilers for LNG and LPG plants).
- Fugitive emissions owing to gas losses (gas losses in pipelines, connections and network RMS and gas leaks owing to damages to third parties).
- Fugitive fluorinated greenhouse gas emissions in climatization.
- Combustion in mobile sources (owned or operated vehicles).

The emissions of combustion in fixed sources include the fossil fuels used.

The fugitive emissions due to losses in the network correspond with the total of intrinsic, incidental, and operational emissions from the network, consisting of the following:

- Intrinsic emissions: emissions by leaks due to holes or small cracks detected by tracking in networks and supply points, to Polyethylene permeation (PE) and to leaks detected in the periodical inspections of receiving installations.
- Incidental emissions are due to leaks that are not detected by tracking or periodical

inspections. The causes are usually due to leaks by damage to the network detected by our personnel, third parties, claims or incidents, as well as those leaks in common or individual receiving installations (IRC/IRI) corrected during attention to emergency requests.

- Operational emissions are those produced in events due to the normal operation of the system during the putting into service of new networks or the disconnection, as well as those due to the maintenance of networks and of existing installations (LNG plants, RMS and valves, change and/or disconnection of meters).

Fugitive emissions of F-gases refer to the recharged quantities of coolants or other agents containing HFCs, PFCs and preparations formed by GHG mixtures, including the heating potential of the mixtures.

Regarding combustion emissions in mobile sources, a detailed methodological approach is considered that allows the calculation of CO₂ emissions, initially from fuel consumption. If only having data for kilometres travelled is available, the calculation is made on the basis of specific consumption factors (gcomb/km) by type of vehicle (car, truck, van) and applicable EURO standards by type of driving (urban or motorway) provided by COPERT. The CO₂ emissions derived from the “bio” part of the fuels are discounted. The rest of GHG (CH₄ and N₂O) is mainly calculated based on recompiled emission factors by kilometres (gGEI/km) in COPERT, equally considering the vehicle, the applicable EURO standard and type of driving. In the case of not having data for

kilometres travelled, this is based on the fuel transformed at kilometres by means of the mentioned specific consumption factors. In the case of GHGs other than CO₂, no discount for biofuel is applied. This methodology is in accordance with the Tier 3 approach of the EMEP/EEA *Air Pollutant Emission Inventory Guidebook*. Technical Guidance to Prepare National Emission Inventories and to the *IPCC Guidelines for National Greenhouse Gas Inventories*.

Emission estimates are made using the EMEP/CORINEAIR methodology, which enables the amount of emissions from each source to be calculated from quantifiable activity data and emission factors. This methodology is consistent with the options listed in ISO 14064-1.

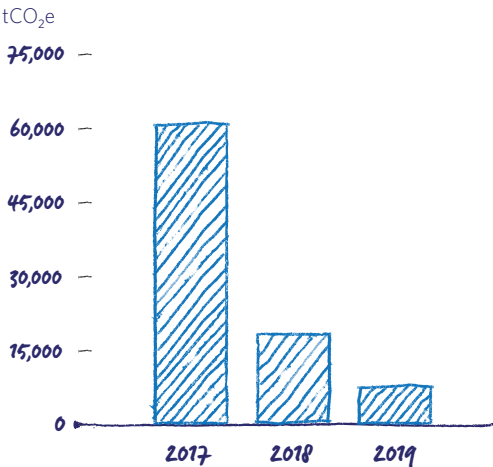
The emission factors applied come from reference sources, such as the 2006 IPCC Guidelines for national inventories of greenhouse gases, the National Inventory (Spain) of emissions to the atmosphere and the emission factors document from the carbon footprint, compensation and absorption projects registry.

Other factors applied, such as the case of fuel data related to LCV, HCV, density, discount percentage in biofuels) have been obtained from references like:

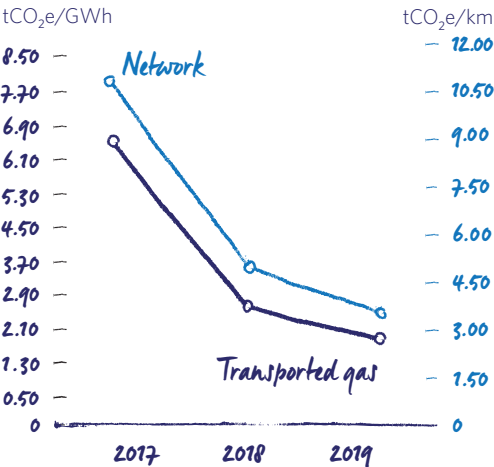
- LCV / HCV: *National inventory of emissions to the atmosphere*, 2006 IPCC guidelines for national greenhouse gas inventories and emission factors document from the carbon footprint, compensation, and absorption projects registry. ►

Scope 1

Evolution of absolute emissions



Evolution of emission intensity



- Densities: R.D. 1088/2010, of September 3, which modifies R.D. 61/2006, of January 31, regarding the technical specifications of petrol, gas oil, use of biofuels and sulphur content of fuels for maritime use and emission factors document from the carbon footprint, compensation and absorption projects registry.
- Biofuels percentage: R. D. 1085/2015, of December 4, for the promotion of biofuels and the emission factors document from the carbon footprint, compensation, and absorption projects registry.
- Piping emission factors: Sedigas.

Scope 2

Indirect GHG emissions owing to the generation of energy that is acquired by the company for its own consumption and is not self-generated; includes acquired

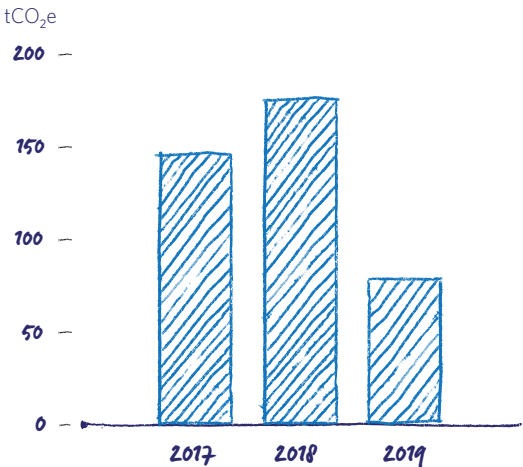
and consumed electricity. The calculation of the emissions is carried out by applying the emission factor (KgCO₂e/kWh) to the consumption (kWh) referring to the marketer used, provided by CNMC or the emission factor applicable to the mix of marketers without guarantee of origin, for each year of calculation. The confirmed consumptions with guaranteed renewable origin are considered with a zero emission factor. The calculations do not include the emissions caused by LPG vaporisation boiler plants.

Regarding the approach to the consolidation of GHG emissions data, Madrileña Red de Gas has included one hundred percent of the GHG emissions of the operations over which it has operational or financial control.

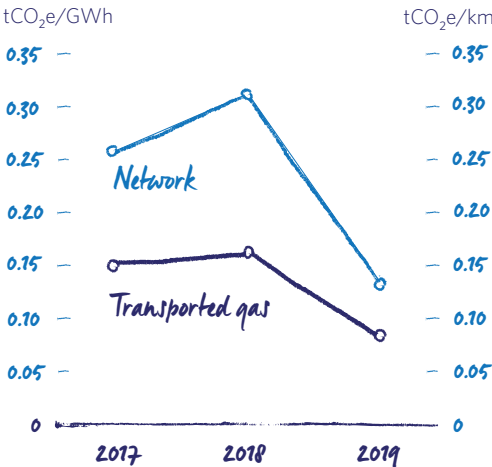
The uncertainty associated with the carbon footprint is determined by the following components:

Scope 2

Evolution of absolute emissions



Evolution of emission intensity



- Scientific uncertainty regarding emission processes. Regarding factors used (emission factors, warming potentials, and other conversion factors such as density or LCV). This component is monitored in the carbon footprint average, in which it uses factors detailed in the IPCC reference documents (emission factors from the guidelines for the preparation of emissions inventories and warming potentials from the IPCC assessment reports) and, whenever available, factors published in the National Inventory of atmospheric emissions. In the case of indirect emissions, specific emission factors from each electricity supplier and reference life cycle analysis in the sectors are used.
- Uncertainty related to the estimation of emissions. Assured using activity data from supplier invoices and/or measuring instruments subject to metrology control to assure a controlled uncertainty range.

The qualitative evaluation of the uncertainty is a means for control and must not be understood at all for quantification purposes. ■

Results

The financial results for 2019 consolidate a continued positive and stable evolution of the company. At year end, MRG distributes gas to 908,000 supply points (885,000 are for natural gas). The EBITDA has increased by 3% from 2018 and the revenue has increased by 3%. The cashflow has been 114.9 million Euros, in line with the previous year.

SUMMARY OF RESULTS

During the year 2019, MRG has improved its financial results, consolidating a continued positive and stable evolution of the company.

The improvement is due to an increase in the regulated remuneration caused by a greater demand and by reducing the costs, as a result of investments made in previous years. In addition, there has been a drop in financial expenses regarding 2018 due to having less gross debt by having already amortised the 500 million Euros bond that was re-financed in 2017.

The energy transported by our distribution network was 10.1 TWh and consolidates a growth trend, because it represents greater

energy than previous years excepting the high peak in 2018, which was a cold year.

The company’s growth strategy continues to be profitable and sustainable expansion in our territory and in adjacent territories. At the close of 2019, Madrileña Red de Gas distributes gas to 908,000 supply points, of which 885,000 are for natural gas.

Transformation of the acquired LPG points has continued, so they can be integrated into the natural gas network. At the end of 2019, nearly 42% of the initially acquired points from Repsol Butano have already been transformed. To those points without conversion, the company distributes and commercialises LPG, and are successfully operated.

Profit and losses (M€)

	2018	2019
Remuneration	147.0	149.6
Other revenues	41.0	36.7
EBITDA ¹	141.4	145.9
EBIT	110.6	113.7
Net profit	51.0	65.0

¹ Excluding non-recurring expenses.

The main activity of MRG is the distribution of natural gas, which is a regulated activity. This year has been marked by the regulatory revision for the next regulatory period, starting in January 2021 and finishing at the end of 2026. This revision was started last 5th of July with the issuing, by the CNMC, of a first circular proposal establishing the base for the retribution methodology for the next six years. After a period of allegations, the CNMC has finally approved a circular that includes a continuity retribution methodology with the current parametric formula and an adjustment to the retribution base, according to the activity of the company in 2000. Because MRG did not exist in 2000, the adjustment of the base for MRG is still uncertain and is pending definition by the regulator.

In this regulatory revision context, the rating agencies that evaluate MRG have put in negative observation the credit classification of MRG and its debt, waiting for the resolution of the definite impact for the company for the new regulatory period and for the company to present the corresponding adjustments in its

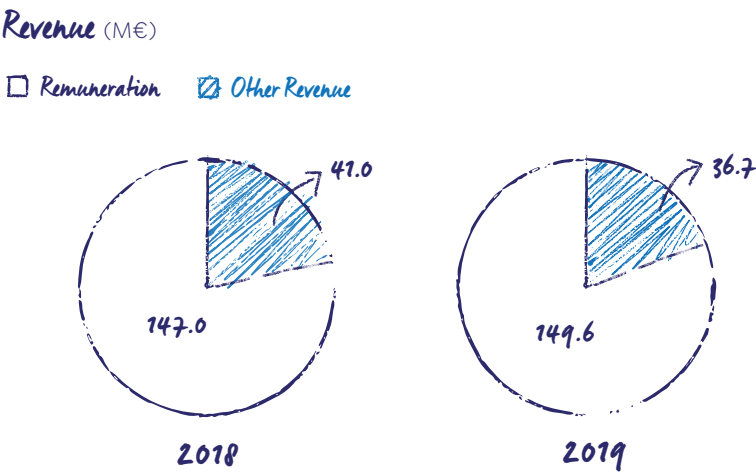
strategy plan corresponding to the mentioned impact for the coming years.

The consortium of company shareholders has not changed during the year. For them, MRG represents a long-term value creation project where they share the same strategic vision and a commitment to long-term financial strength. ■

OPERATING RESULTS

The 2019 EBITDA was 145.9 million Euros This has increased by 3% regarding the EBITDA of 2018. The revenue figures have remained stable. On the other hand, the remuneration for the distribution activity has been higher. This increase of revenue has been compensated by a drop of LPG revenue, because there are less points connected than the previous year, due to the slow conversion of the same being conducted.

The increase in income and less costs due to efficiency in the operations explains the increase of the EBITDA. ■



REVENUE

The 2019 EBITDA was 186 million Euros. Excluding the income from the LPG activity, the revenue grew by 3% due to greater remuneration and a greater volume of regulated activities.

The LPG revenue agrees with the number of operational connection points that are less than the previous year due to conversion of the same and to the integration into the distribution network of natural gas of the company.

Excluding the revenue of the LPG activity, 86% of the total revenue comes from the legally recognised remuneration for the distribution activity in Order 1367/2018 from the Ministry for Ecologic Transition, published in the Official State Gazette No 308 of 22nd December 2018, and the adjustments that have occurred and estimated of the same according to the evolution of the demand for gas. The remaining 14% refers to other services related to the natural gas distribution activity, like rental of meters, periodical inspections, and other consumer services. ■

FINANCIAL POSITION AND BALANCE SHEET

Financial strength is an essential pillar in MRG. The company has strong levels of solvency and liquidity consistent with an investment grade rating. The financial structure is efficient and long-term. In year 2018, 500 million Euros were amortised at the date of expiry. In 2019, the gross debt adds up to 950 million Euros with an average period for expiry, at the end of year, of seven years, approximately, and an average cost of 2.7%.

The company has, in addition, a contingent line of credit, which has been reduced to 75 million Euros during the first quarter of 2020, with the objective of achieving efficiency in the financial infrastructure, adjusting the sum of the mentioned line to the real needs of the company for the coming years.

Dividend flexibility is another feature that gives the company a better financial position.

The debt of the group is issued by MRG Finance in the regulated Luxembourg market under the EMTN Programme. This debt is classed as investment grade (BBB) by the Fitch, and Standard and Poor’s rating agencies. During 2019, and after the publication of the first draft of the circular by the CNMC of 5th July 2019, proposing a first draft about the retribution methodology of the gas distribution activity for the 2021–2026 period, the Fitch, Standard and Poor’s rating agencies placed the credit valuation of the company and the debt in negative observation, waiting to know the definite impact of the new regulatory period for the company, and the strategy plan and financial policy the company will follow in the coming years.

Balance sheet ¹ (M€)	2018	2019
Gas distribution licences & other intangibles	748.4	751.0
Net tangible fixed assets	358.5	354.9
Total network fixed assets	1,106.9	1,105.8
Goodwill	57.4	57.4
Deferred tax assets	24.9	21.5
Other non-current assets	1.9	55.7
Current assets	55.8	42.3
Cash	63.0	103.4
Total assets	1,309.9	1,386.2
Equity	233.3	298.1
Long term debt	942.6	943.8
Deferred income tax liabilities	50.2	60.1
Other non-current liabilities	24.1	37.5
Current liabilities	59.7	46.7
Total liabilities & shareholders equity	1,309.9	1,386.2

¹ In accordance with the International Financial Reporting Standards (IFRS).

After a period of allegations, the CNMC has finally approved, in 2020, a circular that includes a continuity retribution methodology with the current parametric formula and an adjustment to the retribution base, according to the activity of the company in 2000. Because MRG did not exist in 2000, the adjustment of the base for MRG is still uncertain and is pending definition by the regulator. ■

Financial strength is an essential pillar in MRG. In year 2018, 500 million Euros were amortised at the date of expiry

Free cash flow¹ (M€)

	2018	2019
EBITDA	141.4	145.9
Income tax paid	(5.9)	(6.9)
Working capital ²	(3.9)	(10.5)
Capex	(15.1)	(13.5)
Free cash flow	116.5	114.9

¹ In accordance with the International Financial Reporting Standards (IFRS).
² Excluding one-off effects (Deficit monetization 2018 and Project Castor payment received in 2019 plus payment made for previous years Gas balance).

CASH FLOW OF OPERATIONS

The cashflow has been 114.9 million Euros, in line with the previous year. The larger investment in cash flow is due to the end of year position of settlements with the system.

The cash flow calculation does not include non-recurring operational items like the use of the tariff deficit of years 2015 and 2016, in the 2018 figure, and the settlement with Naturgy of the losses corresponding to the years in which the network was not sectorised, to which we add the cash revenue from the enforcement of the judgement about the Castor underground storage during the year 2019. ■

INVESTMENTS

During the year 2019 the investments have reached the figure of 13.5 million Euros. Regarding their purpose, these can be classified into the following groups:

Expansion

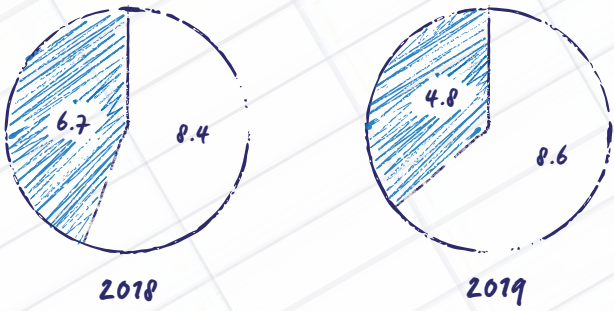
MRG has invested a total of 8.6 million Euros in expansion of the network, in line with that invested the previous year and with its viable and sustainable expansion.

Other Projects

There are investments in other projects for artificial intelligence tools, digitalisation, processes automation, and development of the information systems that aim to reach targets of cost efficiency and quality improvement in customer service. In this year there has been a reduction of the investment, due to the project initiated in 2016 to fight against fraud, that finished in the year 2019 and has had less provisions in this year than in previous years. ■

Investments (M€)

Expansion Other One-off



During the year 2019 the investments have reached the figure of 13.5 million Euros, of which a total of 8.6 million Euros were for expansion of the network

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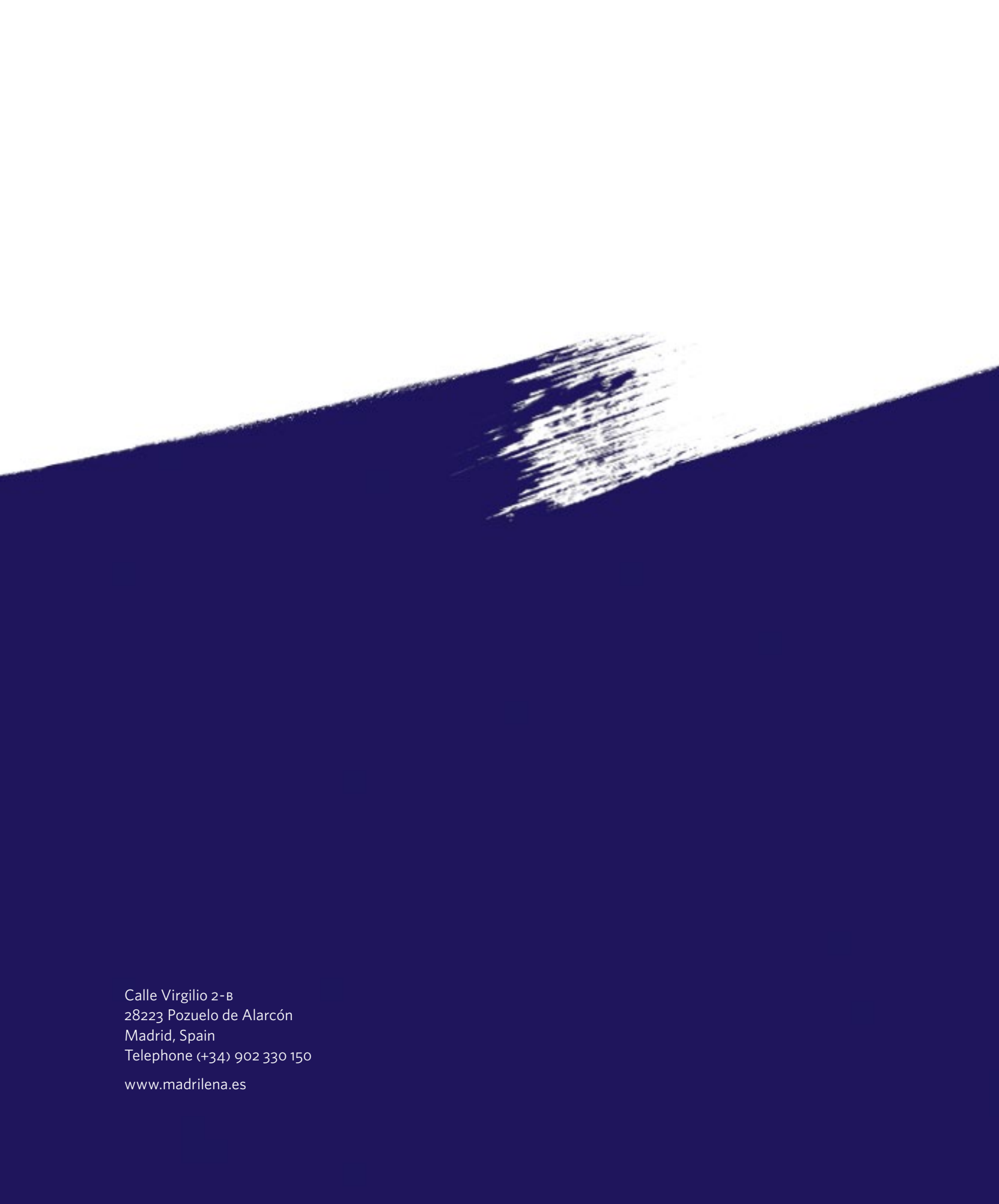
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