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

Consolidated Annual Accounts
31 December 2018

Consolidated Directors' Report
2018

(With Auditor's Report Thereon)

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

KPMG Auditores, S.L.
Torre Iberdrola
Plaza Euskadi, 5
Planta 17
48009 Bilbao

Independent Auditor's Report on the Consolidated Annual Accounts

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

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

Opinion

We have audited the consolidated annual accounts of Nortegas Energía Distribución, S.A.U. (the "Company") and subsidiaries (together the "Group"), which comprise the consolidated balance sheet at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

Most Relevant Aspects of the Audit

The most relevant aspects of the audit are those that, in our professional judgement, have been considered as the most significant risks of material misstatement in the audit of the consolidated annual accounts of the current period. These risks were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

Recoverability of non-current assets (see notes 2.c, 3.h, 4, 7 and 8 to the consolidated annual accounts)

The Group's principal activities are related to gas distribution and the marketing of liquefied propane gas through pipelines and, therefore, the balances recognised under intangible assets and property, plant and equipment are highly significant. Furthermore, the consolidated annual accounts include goodwill amounting to Euros 46 million assigned to the Cash Generating Units (CGUs) in accordance with IFRS-EU. IFRS-EU determine the need to carry out an analysis of the recoverable amounts of the assets referred to in the previous paragraph in those cases in which indications of impairment were identified. Goodwill and intangible assets with indefinite useful lives are not amortised, but are instead tested for impairment at least on an annual basis.

The calculation of the recoverable amount of non-current assets indicated in the preceding paragraphs is determined through the use of methodologies based on discounted cash flows, the estimation of which is subject to uncertainty and which therefore requires the use of a high degree of judgement.

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

Accounting for investments in property, plant and equipment (see notes 7 and 8 to the consolidated annual accounts)

As mentioned above, the Group's principal activity is related to gas distribution and the marketing of liquefied propane gas through pipelines and, therefore, the balances recognised under property, plant and equipment are highly significant. Therefore, given the volume represented by property, plant and equipment over the Group's total assets and due to the high degree of judgement required to assess the nature and amount of expenses to be capitalised as property, plant and equipment, to calculate the amount of interest expenses that should be capitalised in the construction of these assets and to determine the date on which the transfer to operation of installations under construction takes place, we consider the correct recognition of investments in property, plant and equipment to be a relevant aspect of the audit.

Our audit procedures included assessing the Group's key controls related to the process of capitalisation and acquisition of assets, the analysis and documentary support of additions for the period, assessing whether the commencement date of the amortisation of the Group's assets is in accordance with the Group's accounting policy and assessing the adequacy of the accounting policy in this regard. We also assessed whether the information disclosed in the consolidated annual accounts meets the requirements of the financial reporting framework applicable to the Group.

Provisions for litigation and claims (see note 25 to the consolidated annual accounts)

As a result of the operations carried out by the Group, the consolidated balance sheet includes provisions on litigation and claims of a fiscal and legal nature. The recognition and disclosure of contingencies and provisions require the application of a high degree of judgement and this has therefore been considered a relevant aspect of the audit.

Our audit procedures included obtaining details of litigation, reconciliation with the accounting records and assessment of the probability of occurrence associated therewith, the sending of confirmations to external lawyers, interviews with those responsible for the Group's legal services, the reading of the minutes to board of directors' meetings, the selection of a sample of the Group's principal litigations and analysis with supporting documentation and review of compliance with the disclosure requirements established in the regulatory financial reporting framework.

Other information: Consolidated Directors' Report

Other information solely comprises the 2018 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

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

Based on the work carried out, as described in the preceding paragraph, the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2018 and the content and presentation of the report are in accordance with applicable legislation.

Directors' Responsibility for the Consolidated Annual Accounts

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated annual accounts.

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

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.

- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

From the significant risks communicated to the Directors of Nortegas Energía Distribución, S.A.U., we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the most significant risks.

We describe these risks in our auditor’s report unless law or regulation precludes public disclosure about the matter.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors (“ROAC”) with No. S0702

(Signed on original in Spanish)

David España Martin

On the Spanish Official Register of Auditors (“ROAC”) with No. 22,690

29 March 2019

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

Consolidated balance sheet
for the year ended 31 December 2018 and the
eight-month period ended 31 December 2017

(Expressed in thousands of Euros)

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

Assets	Note	31 December 2018	31 December 2017
Property, plant and equipment	7	1,031,365	1,065,843
Goodwill	4 and 8	45,910	45,910
Other intangible assets	8	1,501,680	1,527,279
Equity-accounted investees	9	745	666
Other financial assets	11 and 12	2,379	6,535
Deferred tax assets	13	19,530	24,690
Total non-current assets		**2,601,609**	**2,670,923**
Inventories	3 (l)	4,345	5,298
Trade and other receivables	11, 12 and 14	19,785	93,330
Other financial assets	11 and 12	37,665	212
Other current assets	15	3,775	4,139
Cash and cash equivalents	16	157,068	130,534
Total current assets		**222,638**	**233,513**
Total assets		**2,824,247**	**2,904,436**

Equity and Liabilities	Note	31 December 2018	31 December 2017
Capital	17	100,000	100,000
Share premium	17	701,290	814,183
Reserves	17	(79,785)	(91,773)
Other shareholder contributions	17	324,244	196,941
Profit/(loss) for the period	17	95,152	11,988
Total equity		**1,140,901**	**1,031,339**
Capital grants	27	335	-
Contract liabilities	28	4,922	1,242
Provisions for liabilities and charges	25	5,486	3,929
Liabilities from the issue of bonds and other marketable securities	18, 19 and 21	1,292,309	1,291,899
Other financial liabilities	18, 19 and 20	2,191	129,584
Other liabilities		-	4,633
Deferred tax liabilities	13	290,671	348,646
Total non-current liabilities		**1,595,914**	**1,779,933**
Liabilities from the issue of bonds and other marketable securities	18, 19 and 21	5,345	5,419
Bank borrowings	18, 19 and 20	1,692	50
Other financial liabilities	18, 19 and 22	6,947	3,299
Trade and other payables	18, 19 and 22	54,969	59,867
Income tax liabilities	13	12,537	6,728
Other current liabilities	29	5,942	17,801
Total current liabilities		**87,432**	**93,164**
Total equity and liabilities		**2,824,247**	**2,904,436**

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

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

Consolidated income statement
for the year ended 31 December 2018 and the
eight-month period ended 31 December 2017

(Expressed in thousands of Euros)

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

	Note	31 December 2018	31 December 2017
Revenue	30	229,687	91,317
Other operating income	30	9,463	5,947
Work carried out for the Group's own assets		6,459	3,126
Supplies	30	(21,730)	(7,432)
Personnel expenses	32	(16,763)	(12,807)
Change in trade receivables and contract assets		(59)	(210)
Other expenses	31	(35,473)	(12,276)
Operating profit before depreciation/amortisation		**171,584**	**67,665**
Amortisation and depreciation	7 and 8	(81,863)	(38,858)
Operating profit		**89,721**	**28,807**
Finance income	33	357	230
Finance cost	33	(28,612)	(12,691)
Share in profit for the period from investments accounted for using the equity method	9	191	57
Profit/ (loss) before tax from continuing operations		**61,657**	**16,403**
Income tax (expense)/income	13	33,495	(4,415)
Profit/ (loss) for the period from continuing operations		**95,152**	**11,988**
Profit/(loss) for the period		**95,152**	**11,988**
Comprehensive income for the period		**95,152**	**11,988**

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

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

Statement of changes in equity
for the year ended
31 December 2018 and the eight-month period ended 31 December 2017

(Expressed in thousands of Euros)

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

	Equity attributable to equity holders of the parent							
	Capital	Share premium	Merger reserve	Legal reserve	Other reserves	Profit/(loss) for the period	Other shareholder contributions	Total equity
Balance at 30 April 2017 (unaudited)	**100,000**	**-**	**(99,997)**	**-**	**-**	**-**	**-**	**3**
Comprehensive income for the period	-		-	-	-	11,988	-	11,988
Business combinations (notes 4 and 17)	-	814,183	8,224	-	-	-	-	822,407
Shareholder contributions (note 17)	-	-	-	-	-	-	196,941	196,941
Balance at 31 December 2017	**100,000**	**814,183**	**(91,773)**	**-**	**-**	**11,988**	**196,941**	**1,031,339**
Comprehensive income for the period	-	-	-	-	-	95,152	-	95,152
Distribution of profit/(loss)	-	-	-	75	11,913	(11,988)	-	-
Distribution of share premium	-	(112,893)	-	-	-	-	-	(112,893)
Shareholder contributions (note 17)	-	-	-	-	-	-	127,303	127,303
Balance at 31 December 2018	**100,000**	**701,290**	**(91,773)**	**75**	**11,913**	**95,152**	**324,244**	**1,140,901**

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

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

Consolidated statement of cash flows
for the year ended
31 December 2018 and the eight-month period ended 31 December 2017

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

	Note	31.12.2018	31.12.2017
Cash flows from operating activities			
Profit/(loss) for the period before tax		**61,657**	**16,403**
Adjustments for		**113,112**	**55,051**
Amortisation and depreciation	**Notes 7 and 8**	81,863	38,858
Impairment allowances		59	210
Change in provisions	**Note 25**	3,117	3,591
Grants recognised in the income statement		(6)	(15)
Proceeds from disposals of fixed assets		15	3
Finance income		(357)	(230)
Finance cost		28,612	12,691
Share of profit of equity-accounted investees		(191)	(57)
Changes in operating assets and liabilities		**57,142**	**(37,307)**
Inventories		953	(963)
Trade and other receivables		71,935	225,582
Other current assets		(1,018)	(2,114)
Other current liabilities		(11,859)	9,036
Trade and other payables		(2,869)	(268,848)
Other cash flows from operating activities		**(37,290)**	**(10,436)**
Interest paid		(27,015)	(1,717)
Dividends received		112	-
Interest received		94	230
Other amounts received/(paid)		(1,560)	-
Income tax paid		(8,921)	(8,949)
Cash flows from operating activities		**194,621**	**23,711**
Cash flows from investing activities			
Payments for investments		**(66,801)**	**(774,175)**
Change in cash due to modification of the consolidation perimeter	**Note 4**	(4,632)	(764,305)
Intangible assets	**Note 8**	(2,351)	(4,032)
Property, plant and equipment	**Note 7**	(22,818)	(5,838)
Other financial assets	**Note 11**	(37,000)	-
Proceeds from sale of investments		**5,939**	**51,739**
Property, plant and equipment		416	29
Other financial assets		5,523	51,710
Cash flows from investing activities		**(60,862)**	**(722,436)**
Cash flows from financing activities			
Proceeds from and payments for equity instruments		**-**	**826,774**
Capital increases		-	822,407
Other shareholder contributions		-	4,367
Proceeds from and payments for financial liability instruments		**5,668**	**2,482**
Issue		5,781	1,429,785
Group companies and associates	**Note 20**	-	127,303
Issue and disposal of debt		1,642	1,300,000
Capital grants	**Note 27**	339	-
Contract liabilities	**Note 28**	3,646	1,175
Other		154	1,307
Redemption and repayment of		(113)	(1,427,303)
Repayment of debt		(113)	(1,427,303)
Dividends and interest on other equity instruments paid		**(112,893)**	**-**
Distribution of share premium		(112,893)	-
Cash flows from financing activities		**(107,225)**	**829,256**
Net increase/decrease in cash and cash equivalents		26,534	130,531
Cash and cash equivalents at start of period		130,534	3
Cash and cash equivalents at period end		**157,068**	**130,534**

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

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

1. Nature, Activities and Composition of the Group

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

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

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

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

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

c) The provision of services linked to or which are considered to be ancillary to the gas distribution business, to natural gas suppliers and end users.

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

e) The production, acquisition, intra-EU exchange, import and export of liquefied petroleum gas and light hydrocarbons obtained from oil, natural gas and the storage, mixture, bottling and transportation of liquefied petroleum gas and light hydrocarbons obtained from oil, natural gas or biogas.

f) The wholesale and retail sale of liquefied petroleum gas, natural gas and biogas, and the supply thereof, bottled or in bulk, including via tanker and the promotion, installation, maintenance and review of facilities required to conduct the above activities, including the construction, modification, operation and closure of LPG bulk storage and distribution facilities, and the pipelines required to supply end consumers from the aforementioned storage facilities.

The Group conducts its statutory activity under the terms and within the scope provided for in the Hydrocarbon Industry Law and related implementing legislation and pursuant to the legislation issued by the autonomous regional governments in accordance with their powers. If, in order to engage in its statutory activity, the Company were required to provide prior authorisations or to meet any requirements, legal, technical or economic-financial conditions or special training requirements, the Company would do so before carrying out its activity.

At 31 December 2018, Nortegas Energía Distribución, S.A.U. is the Parent of a Group comprising the subsidiaries NED España Distribución Gas, S.A.U. and NED Suministro GLP, S.A.U. Similarly, the Group has investments in the associates Tolosa Gasa, S.A. and Inkolan A.I.E. Details of the composition of the Group are provided in Appendix I.

In accordance with article 13.1 of the Revised Spanish Companies Act, the Parent is filed at the Mercantile Registry as a single shareholder company.

On 31 March 2017 Naturbidco S.L., was incorporated through a contribution of Euros 3 thousand and filed at the Mercantile Registry on 6 April 2017. The Company's sole shareholder approved a change to the corporate name on 19 April 2017, altering it to Nature Gasned XXI S.L.U.

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

Lastly, on 27 December 2017 the sole shareholder approved the modification of the Parent's fiscal year to begin on 1 January and end on 31 December of each year.

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

On 27 September 2017 the boards of directors of both companies entered into the merger project for the purposes of generating synergies and simultaneously achieving a more effective structure. The date of the merger for accounting purposes is 27 July 2017, i.e. the date of acquisition of the Company by Nature Gasned XXI, S.L.U. The merger has been carried out under the special protected regime.

On 30 October 2017 the merger announcement was published in the Official Gazette of the Mercantile Register. The merger agreement establishes the merger between Nature Gasned XXI, S.L.U. (absorbed entity) and the Company (absorbing entity) by means of the winding up without liquidation of the former and bloc transmission of all its assets and liabilities to the latter, who will acquire all the rights and obligations of Nature Gasned XXI, S.L.U. by universal transfer.

On 1 December 2017, having received the authorisations from the corresponding bodies, Nature Gasned XXI, S.L.U. and Nortegas Energía Distribución, S.A.U. signed the merger deed, marking the merging of both companies. The merger was duly registered in the Mercantile Register (hereinafter "the Merger").

Reverse Acquisition

For accounting purposes, the Merger was treated as a reverse acquisition whereby Nature Gasned XXI, S.L.U. was the acquirer for accounting purposes (legal acquiree) and Nortegas Energía Distribución, S.A.U. was the acquiree for accounting purposes (legal acquirer). This was because Nature Gasned XXI, S.L.U. was the legal acquirer of the Company after the transaction carried out on 27 July 2017. The assets and liabilities of Nortegas Energía Distribución, S.A.U. were therefore included in the annual accounts at fair value at the date of acquisition. The assets and liabilities of Nature Gasned XXI, S.L.U. are shown at the amounts historically recorded in the financial statements (see note 2).

Regulatory framework

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

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

1. Natural gas

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

a) Gradual liberalisation of the natural gas system:

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

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

Following approval by the Delegate Commission on Economic Affairs, the Ministry for Ecological Transition sets the new prices for last resort tariffs and the tolls and charges for basic third-party access services. The entitlement of direct market consumers and suppliers to use the basic grid and transmission and distribution facilities was also established, and a single nationwide toll was set for the use of these networks. Order ETU/1283/2017, stipulating the tolls and charges for third-party access to gas facilities, among other things, was published on 27 December 2017.

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

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

In addition to tolls and charges, the aforementioned Order ETU/1283/2017 also sets the remuneration for regulated activities in 2018.

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

b) Settlements of regulated activities - gas sector:

Basically, as a result of the entry into force of the Spanish Hydrocarbon Industry Law 34/1998 and the corresponding implementing provisions, inter-company settlements have arisen since 2002. These settlements are performed by the Spanish National Markets and Competition Commission (CNMC), which incorporates the defunct National Energy Commission (CNE), and give rise to receipts and payments between companies in the sector in order to redistribute the proceeds obtained from access tolls and charges so that each company receives the remuneration effectively allocated to it for regulated activities.

c) Financing of the sector deficit:

Law 18/2014 establishes the treatment of the gas sector tariff deficit, i.e. the financing of the deficit between the income and costs of the gas system each year.

Thus, the law determines that the amount of the accumulated deficit at 31 December 2014 will be determined in the final 2014 settlement (settlement 15), and the regulated parties are entitled to recover the annual amounts corresponding to this accumulated deficit in the settlements for the following 15 years, recognising interest at market rates. Deficits subsequent to 2014 will be settled in the 5 following annual amounts, and will also recognise interest at market rates. The amount of the deficit recognised, the corresponding annual amount and the interest rate applied must be approved by the Ministry for Ecological Transition.

Pursuant to Ministerial Order ETU/1977/2016, the accumulated industry deficit at 31 December 2014 amounted to Euros 1,025 million and in 2015 it amounted to Euros 27 million. The portion of these 2014 and 2015 deficits corresponding to Nortegas Energía Distribución, S.A.U. (formerly Naturgas Energía Distribución, S.A.U.) amounted to Euros 55.9 million and Euros 1.7 million, respectively.

With regards following years, pursuant to the final settlement for 2016 made by the Spanish National Markets and Competition Commission (CNMC), the deficit for 2016 amounted to Euros 90 million of which Euros 5.3 million corresponded to Nortegas Energía Distribución, S.A.U. (formerly Naturgas Energía Distribución, S.A.U.). The final settlement for 2017 produced a deficit of Euros 24.8 million, whereby Nortegas Group companies have to assume a deficit of Euros 1.6 million.

On 1 December 2017, under the system of settlements with entitlement to recover annual amounts corresponding to the 2014 deficit, the Company transferred the amount and the interest receivable to a financial institution. This transaction, amounting to Euros 53,036 thousand, means that the payments for the aforementioned items, which according to the periodic settlements drawn by the CNMC, are payable to the company should be paid into the current account and in the name of the new beneficiary. Furthermore, on 21 December 2018 the CNMC was notified of the assignment agreement, of the recognised amount pending collection plus interest corresponding to the temporary imbalance between income and expenses for 2015 and 2016 referred to in Orders ETU/1977/2016 and ETU/1283/2017, which amount to Euros 1,089 and Euros 4,434 thousand, respectively.

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

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

e) Unbundling of activities

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

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

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

2. LPG - Liquefied Petroleum Gas

The Hydrocarbon Law implements the main system definitions regarding the parties involved and organises the activities related to the supply of liquefied petroleum gases (hereinafter LPG), distinguishing between wholesale and retail supply.

Subsequently, Law 8/2015 of 21 May 2015, which amends Hydrocarbon Industry Law 34/1998 of 7 October 1998 and regulates certain tax and non-tax related measures related to exploration, research and operations in the field of hydrocarbons, introduced profound changes into the general framework for the activity. It explicitly defined bulk supply and stipulated that the provisions for the supply of gaseous fuels through mains would also apply to the bulk supply of piped LPG, as long as there were no regulatory developments in this respect.

Royal Decree 1085/1992 of 11 September 1992, which in turn approved the regulation governing the distribution of liquefied petroleum gases, in implementation of Law 15/1992 of 5 June 1992, on urgent measures for the progressive adaptation of the oil sector to the community framework, included the main details for conducting the retail LPG supply activity, i.e. the sale to end consumers or users. It implements, among others, the requirements for parties to carry out the activity, aspects related to the installations, details on supply and contracting, and the regime governing tariffs. This Royal Decree was subsequently amended by Royal Decree 197/2010 of 26 February 2010 adapting certain provisions relating to the hydrocarbon industry to the provisions of Law 25/2009 of 22 December 2009, which amended various laws to adapt them to the Law on unrestricted access to service activities and the provision thereof, for purposes of compliance with Law 34/1998.

a) Definition of the LPG supply sector:

Liquefied petroleum gases are defined as light hydrocarbon fractions, mainly propane and butane, which are obtained during the extraction of crude oil or natural gas or during refining of petroleum products.

The activities related to the supply of LPG are as follows: production, acquisition, intra-EU exchange, import and export; storage, mixing and packaging; transportation; wholesale supply; retail supply; installation, maintenance and review of the facilities related to the supply of LPG.

One of the methods by which LPG can be supplied is in bulk. This includes the distribution and/or supply of LPG through mains, the latter being understood as the distribution and supply of LPG from one or more mains tanks which are used to supply users with piped LPG supply contracts with a distribution company.

"Wholesale supply" is defined as that which does not involve the supply to an end consumer or user.

"Retail supply" is defined as the sale to end consumers or users.

b) Requirements and conditions for carrying out the retail distribution of LPG

Article 46 of Hydrocarbon Industry Law 34/1998 defines the role of retail distributor of bulk liquefied petroleum gases. It establishes the requirements for obtaining authorisation to carry out this activity as follows: to have the legal, technical and financial capacity and to comply with the technical and safety conditions established by law at its installations.

In the absence of a regulation to implement article 46, the second transitional provision of Law 34/1998 is applicable. This provision maintains the validity of the regulations applicable to the matters governed by Law 34/1998 until new ones are introduced. In this case, the prevailing regulation is the aforementioned regulation governing the distribution of liquefied petroleum gases (Royal Decree 1085/1992, Official State Gazette of 9 October 1992). Although it does not define the same roles, it stands to reason that the retail distributor of bulk liquefied petroleum gases must fulfil the same conditions as the LPG supply company.

Under this regulation, the requirements for carrying out the activity are:

1. To possess the financial capacity to do so.

2. To possess the technical capacity to do so.

3. To have a guaranteed source of supply.

4. To have a means of storage.

5. To keep minimum security stocks equivalent to thirty days' total sales, or to acquire LPG through a wholesale operator.

c) Economic regime

With regard to the economic regime governing piped LPG, the current wording of article 94 of Law 34/1998 stipulates that the Minister may make the provisions required to establish the sales prices of piped LPG for end consumers, and the consumer transfer tariffs for distributors of piped gaseous fuels. The difference between both prices provides the supplier's margin on the activity of supplying end customers. This margin carries a fixed margin per consumer and a variable component based on consumption.

The source of the current economic framework is the Order dated 31 July 1997 establishing the system of maximum sales prices before tax for liquefied petroleum gases (B.O.E. of 1 August 1997). This Order has been the subject of successive revisions and updates:

- Order of 16 July 1998 updating the selling costs of the system for the automatic establishment of maximum pre-tax sales prices of liquefied petroleum gases, and liberalising certain supplies.

- Order ITC/3292/2008 of 14 November 2008, modifying the system for the automatic determination of pre-tax sales tariffs of piped liquefied petroleum gases.

- Order IET/389/2015 of 5 March 2015, updating the system for the automatic determination of maximum pre-tax sales prices of bottled liquefied petroleum gases and modifying the system for the automatic determination of pre-tax sales tariffs for piped liquefied petroleum gases.

The maximum price of piped liquefied petroleum gas (LPG) is established in the Resolution issued by the Directorate-General for Energy Policy and Mining, in accordance with the aforementioned regulations. Among these resolutions, which may be issued monthly, the revision in July of each year is particularly important as it determines the sales margin on the activity. Thus, in 2018 the main Resolution is that of 12 July 2018, by the Directorate-General for Energy Policy and Mining, publishing the new pre-tax sales prices of piped liquefied petroleum gases.

2. Basis of presentation

The consolidated annual accounts have been prepared on the basis of the accounting records of Nortegas Energía Distribución, S.A.U. and subsidiaries. The consolidated annual accounts for the year ended 31 December 2018 are prepared in accordance with International Financial Reporting Standards (hereinafter, IFRS), as adopted by the European Union in accordance with EC Regulation No. 1606/2002 of the European Parliament and of the Council. The Directors of the Parent consider that these consolidated annual accounts will be approved by the sole shareholder with no changes. These consolidated annual accounts will be filed at the Bizkaia Mercantile Registry.

The consolidated annual accounts for the eight-month period ended 31 December 2017 were the first to be prepared in accordance with IRFS-EU. IRFS 1 First-time adoption of International Financial Reporting Standards therefore applied, as the date of first application is 31 March 2017 (date on which Nature Gasned XXI S.L.U. was incorporated). See note 1.

(a) Basis of presentation of the annual accounts

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

(b) Comparative information

As explained in note 1, Nature Gasned XXI, S.L.U. was incorporated on 31 March 2017. In addition, as stated in the aforementioned note, with effect for accounting purposes from 27 July 2017, there was a reverse merger with Nortegas Energía Distribución, S.A.U., whereby the company Nature Gasned XXI, S.L.U. was wound up.

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

2017, and the operations of Nature Gasned XXI, S.L.U. for the whole eight-month period ended 31 December 2017.

In addition, in May 2018 staff from the corporate departments (76 employees) were transferred to the sole shareholder (Nortegas Energía Grupo, S.L.U.). Since then, the sole shareholder renders these services to Group companies (note 34).

(c) <u>Significant accounting estimates and key assumptions and judgements when applying accounting policies</u>

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Group's accounting principles to prepare the consolidated annual accounts in line with IFRS-EU. A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the consolidated annual accounts is as follows:

- *<u>Impairment of non-current assets (see notes 4 and 8)</u>*

As described in notes 3.h and 8, in accordance with applicable accounting regulations, the Group performs annual impairment tests of its cash generating units. It carries out specific tests in the event it detects indications of impairment. These impairment tests imply an estimation of the future evolution of the businesses and of the most appropriate discount rates used in each case. The Group believes that its estimates in this regard are adequate and consistent with the current economic situation and that they reflect its investment plans and the best available estimate of its future income and expenses, and considers that its discount rates adequately reflect the risks corresponding to each cash generating unit.

- *<u>Useful life of property, plant and equipment and intangible assets (see notes 7 and 8)</u>*

The Directors of the Parent company determine the estimated useful lives and corresponding depreciation and amortisation for its property, plant and equipment and intangible assets. This estimate is based on the expected duration of each of the Group's property, plant and equipment and intangible assets and the forecast life cycles of the products it sells. The Directors of the Parent company will modify the depreciation charges for these items when the useful lives are considered to differ from the lives previously estimated and will depreciate or derecognise technically obsolete or non-strategic assets that have been abandoned or sold.

- *<u>Income tax (see note 13)</u>*

Due to the legal status of the tax regulation applicable to the Group companies, certain calculations are estimates and the ultimate quantification of the tax is uncertain. Tax is calculated based on Management's best estimates according to the current status of the tax legislation and taking into account its foreseeable evolution.

When the ultimate taxable income amount is different to the amounts initially recorded, the effect of these differences is recognised in income tax in the year in which they are determined.

- *<u>Provisions for risks and expenses (see note 25)</u>*

Despite the fact that these estimates have been made based on the best information available at the close of the year ended 31 December 2018, it is possible that events may take place in the future which will require them to be changed (upwards or downwards) in future years, which would be done on a prospective basis.

- *<u>Settlement of regulated activities (see note 1.1b)</u>*

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

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

- *Assets held for disposal and discontinued operations:*

The Group periodically revises whether specific assets or cash generating units should be classified as assets held for sale or discontinued operations.

Although these estimates have been prepared based on the best information available on the date of preparation of these consolidated annual accounts, it is possible that future events may require the Company to increase or reduce these figures in future periods, recognising the effects of any such changes prospectively in future periods.

(d) Standards and interpretations effective as of 1 January 2018

The consolidated annual accounts for the year ended 31 December 2018 have been prepared applying the accounting policies and the standards and amendments adopted by the European Union that are mandatory as of 1 January 2018.

For the first time in these annual accounts, the Group has applied IFRS 15: *Revenue from contracts with customers* and IFRS 9: *Financial Instruments*.

IFRS 15: *Revenue from contracts with customers*

According to the new standard, revenue is recognised at an amount that reflects the consideration the Group expects to receive in exchange for the transfer of goods and services to a customer. Revenue is recognised when the customer obtains control of the goods or services. IFRS 15 also includes guidance on the presentation of contract balances, i.e. assets and liabilities arising from contracts with customers, depending on the relationship between the entity's performance and the customer's payment. IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue, as well as the related interpretations.

The nature of the change in the Group´s accounting policy due to the application of this standard relates to the fact that revenue recognition must follow the 5-step model set out therein and differences may arise in terms of both the amount and the time of revenue recognition compared to the current policy.

When performance requires the transfer of assets or services to the customer before consideration is paid or before payment is due, the Group presents the contract as an asset, excluding the amounts presented as receivables. A receivable is an unconditional right to receive consideration at a future time when payment is due.

A contract liability is the Group’s obligation to transfer assets or services to a customer from whom consideration has already been received (or this consideration is already due from the customer). The Group presents contract liabilities under the heading Contract liabilities in the consolidated balance sheet (note 28).

The Group has adopted IFRS 15 on a retroactive basis, recording the resulting accumulated effect of the application of the standard on 1 January 2018. Accordingly, the consolidated annual accounts for 2017 do not include any effect whatsoever due to the application of IFRS 15.

Using the 5-step model established by IFRS 15, the Group has analysed the policy for recognising each type of revenue at the Group. The conclusion reached through that analysis was that there would be no significant differences compared to the current revenue recognition policy. No impact on the consolidated equity at 1 January 2018 has therefore been recognised as a result of the application of that standard.

IFRS 9: *Financial Instruments*

IFRS 9 establishes the requirements for recognising and measuring financial assets, financial liabilities and some contracts covering the acquisition or sale of non-financial items, replacing the previously applied IAS 39.

Classification and measurement of financial assets and liabilities

IFRS 9 replaces the preceding classification of financial assets such that they are now classified based on their underlying business model and the characteristics of their contractual cash flows. The new standard largely maintains the requirements existing under IAS 39 regarding the classification and measurement of financial liabilities.

The Group retroactively adopted the classification and measurement requirements on the date of first application (1 January 2018) and applied the option to not restate the figures relating to dates used as a comparison.

The Group has classified its financial assets into the following category:

Category	
Financial assets measured at amortised cost	Financial assets that: - are held within the framework of a business model whose purpose is to hold financial assets in order to obtain contractual cash flows, and - the contractual conditions give rise, on specified dates, to cash flows constituting solely payments of principal plus interest on the outstanding principle.

The amounts classified under IAS 39 in the following category therefore have an equivalent in the following new category under IFRS 9:

Pursuant to IAS 39	**Pursuant to IFRS 9**
Loans and receivables	Financial assets measured at amortised cost

The classification of the Group's financial liabilities has not undergone any changes compared to the matters included in the consolidated annual accounts for 2017.

Impairment of financial assets measured at amortised cost and contract assets

It is no longer necessary under IFRS 9 for an event to occur that reveals the existence of impairment in order to recognise credit losses. Expected credit losses are now recognised, which has given rise to the anticipated recognition of credit losses compared to IAS 39.

The Nortegas Group has adopted the impairment requirements on a retroactive basis on the date of first application (1 January 2018), and has applied the option to not restate the figures from periods used as a comparison.

The Group applies the general approach of calculating the expected loss of its financial assets. The general approach considers expected credit losses for the next twelve months, except when the credit risk of a financial instrument has increased significantly since its initial recognition, in which case the expected credit losses for the entire life of the asset are considered.

Given the high credit quality of financial assets, the estimation is that the probability of non-payment of those assets is not significant and therefore IFRS 9 has not had a relevant impact on these annual accounts.

The measurement correction arising from impairment relating to the heading Trade receivables and other current assets is presented separately in the consolidated income statement, under the heading Change in trade receivables and contract assets. Consequently, Euros 210 thousand has been reclassified in this respect which, in accordance with the preceding IAS 39, was recognised under the heading Other expenses in the consolidated income statement for the eight-month period ended 31 December 2017.

(e) Standards and interpretations effective as of 1 January 2019

On the date on which these consolidated annual accounts were prepared, the following standards, amendments and interpretations had been issued, the effective date of which is subsequent to the years started as of 1 January 2018:

		Mandatory application	
Standard		**IASB**	**European Union**
IFRS 16	Leases	01.01.2019	01.01.2019
IFRS 17	Insurance contracts	01.01.2021	(*)
IFRIC 23	Uncertainty over income tax treatments	01.01.2019	01.01.2019
Amendments to IFRS 9	Prepayment options with negative compensation	01.01.2019	01.01.2019
Amendments to IAS 28	Non-current investments in associates and joint ventures	01.01.2019	(*)
Amendments to IAS 19	Plan amendment, curtailment or settlement	01.01.2019	(*)
2015-2017 cycle	Annual improvements - several standards	01.01.2019	(*)
Amendments to IFRS 3	Definition of a business	01.01.2020	(*)
Amendments to IAS 1 and IAS 8	Definition of material	01.01.2020	(*)

(*) Pending approval by the European Union.

When preparing these consolidated annual accounts, the Nortegas Group has not adopted the early application of any standard, interpretation or amendment that has been published but is not yet applicable.

The Group estimates that their application would not give rise to significant modifications in these consolidated annual accounts, nor are they expected to have a significant impact upon application, except for IFRS 16 Leases.

IFRS 16: *Leases*

The Group will apply IFRS 16 Leases to the financial statements starting 1 January 2019. All of the quantitative effects shown below are gross in terms of their tax effect.

From the point of view of the lessee, IFRS 16 eliminates the current classification between operating and finance leases and stipulates that a lessee must recognise an asset for the right to use a lease agreement and a liability for the present value of the obligation to make lease payments during the term of the agreement in the consolidated balance sheet.

The expense relating to those leases, which in these consolidated annual accounts is stated under the heading Other expenses in the consolidated income statement, will now be recorded under the heading Amortisation and depreciation expenses in the consolidated income statement in the amount of the depreciation of the asset concerned due to the right to use and under Financial expense, which reflects the present value of the lease liability.

From the lessor's standpoint, IFRS 16 does not introduce any relevant changes.

The Group has applied the following policies, estimates and standards:

- The exemption to recognising leases in which the underlying asset is of low value (less than Euros 5,000) and those of a short duration (maturing in 12 months or less) has been applied.

- The practical solution indicated in paragraph C3 in Appendix C of IFRS 16 has been applied. It stipulates that no new assessment is required if a contract is, or contains, a lease on the initial application date.

- The Group is not recognising the non-lease components separately from those that are lease components for certain classes of assets when the materiality of the non-lease components is not significant compared to the total value of the lease.

- The modified retrospective approach has been applied for transition purposes, based on which no comparative figures from prior years will be restated.

- The measurement of the initial right to use an asset at an amount equal to the lease liability at 1 January 2019 has been chosen for all lease agreements.

- An incremental effective interest rate for financing has been applied to each uniform portfolio of leases, country and terms. The average weighted incremental interest rate for this type of leases at the date of initial application fell between 2.75% and 3.25%.

- In order to determine the term of the leases and the irrevocable period, the initial term of each contract has been taking into consideration, unless the Nortegas Group has a unilateral option to extend or terminate the agreement and there is reasonable certainty that the option will be exercised, in which case the relevant term of extension or early termination is taken into consideration.

The reasonably estimated impacts deriving from the initial application of IFRS 16 at 1 January 2019 would total a maximum of Euros 4,492 thousand.

3. Accounting principles

(a) Subsidiaries

The subsidiaries that the Group holds control over are fully consolidated from the date on which control is obtained.

The Group considers that it holds control over a company when it is exposed to, or has the right to receive, variable yield as a result a result of its involvement in it, and has the capacity to influence such yield through the power it exercises over the company. For the purposes of preparing these consolidated annual accounts, a controlling interest is considered to be held in those companies in which an interest of over 50% of share capital is held and proof of control can be shown.

Results of subsidiaries acquired or disposed of during the year are taken to the consolidated income statement from the effective date of acquisition or until the effective date of disposal, as appropriate. All balances and transactions between fully consolidated companies are eliminated on consolidation.

At the date of taking control, the assets, liabilities and contingent liabilities of subsidiaries are recognised at fair value. Any excess of the cost of acquisition of the consolidated subsidiaries over the market value of these assets and liabilities is included under the heading goodwill, since these assets cannot be separately identified and measured. Any deficiency of the cost of acquisition below the market value is credited to the consolidated income statement.

When a Group company loses control of a Group company, their assets and liabilities and any minority interest that may be held are written off. The resulting gains or losses are recognised in the consolidated income statement. Shareholdings in subsidiaries for which control is no longer held are measured at fair value on the date on which control was lost. Gains or losses on purchases of minority interests in companies in which a controlling interest is held, as well as sales of shareholdings without loss of control, are charged or credited to reserves.

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

The annual accounts of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

Appendix I contains information about the subsidiaries included in the Group's scope of consolidation.

(b) Business combinations

The Group has applied the exception contemplated in IFRS 1 First-time adoption of International Financial Reporting Standards so that only business combinations undertaken after 1 April 2017, the IFRS-EU transition date, have been accounted for using the acquisition method.

The Group has applied IFRS 3 Business combinations, revised in 2008, in transactions made subsequent to 1 April 2017.

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree.

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

The consideration paid excludes any payments that do not form part of the consideration given in exchange for the acquiree. Acquisition costs are recognised as an expense when incurred.

The Group recognises the assets acquired, the liabilities assumed and any non-controlling interest at their acquisition-date fair value. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured. The Group also recognizes indemnity assets granted by the seller at the same time and following the same measurement standards for the relevant indemnity item within the acquired business, taking into account any risk of insolvency and any contractual limitation to the indemnity amount.

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

The excess between the business combination cost, plus the value given to non-controlling interests, and the value of net assets acquired and liabilities assumed, is recognised as goodwill.

(c) Reverse acquisition

The reverse acquisition was accounted for in line with the criteria set forth in the business combinations section, taking into account that the legal acquirer is the acquiree for accounting purposes. The cost of the consideration paid was determined as the fair value of the number of equity instruments of the legal acquiree that would have been necessary to issue in order to deliver to the shareholders of the legal acquirer the same percentage of equity instruments as the combined entity.

(d) Associates

Associates are entities over which the Company, either directly, or indirectly through subsidiaries, exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The existence of potential voting rights that are exercisable or convertible at the end of each reporting period, including potential voting rights held by the Group or other entities, are considered when assessing whether an entity has significant influence.

Investments in associated entities are recorded using the equity accounting method from the date significant influence is exercised until the date on which the Company can no longer prove this influence exists. However, if at the date of acquisition, all or part of the investment meets the conditions for classification as non-current assets or disposable groups of elements classified as held for sale, these are recorded at their fair value, less costs of retirement or disposal.

Investments in associated entities are initially recorded at cost of acquisition, including any cost directly attributable to the acquisition and any contingent asset or liability consideration that depends on future events or fulfilment of certain conditions.

The excess of the cost of the investment over the Group's share in the fair value of the identifiable net assets is recognised as goodwill which is included in the carrying amount of the investment. Once the cost of the investment is measured and the net assets of the associate are identified and measured, the deficiency is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment was acquired.

If the investment results from the loss of control of a subsidiary that did not constitute a business, the cost of the investment is the fair value, net of the earnings written off as a result of the loss of control.

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

The Group's share of the profit or loss of an associate and changes in equity is calculated to the extent of the Group's interest in the associate at year end and does not reflect the possible exercise or conversion of potential voting rights. However, the Group's share is calculated taking into account the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently allow access to the economic benefits associated with the interests held, such as entitlement to a share in future dividends and changes in the value of associates.
The Group's share in the profit or loss of associated entities is recorded after taking into account the effect of dividends, agreed or otherwise, corresponding to cumulative preferential shares recorded in equity.

Losses of an associate attributable to the Group are limited to the extent of its net investment, except where the Group has legal or constructive obligations or when payments have been made on behalf of the associate. For the purposes of recognising impairment losses in associated entities, net investment is the result of adding the amount of any other item that substantially forms part of the investment in associates to the carrying amount resulting from applying the equity accounting method. The surplus of losses over the investment in equity instruments is applied to the remaining entries in inverse order of priority in the settlement. Profits obtained subsequently by those associates in which loss recognition was limited to the value of the investment are recorded if they exceed the previously unrecognised losses.

Unrealised gains and losses arising on transactions between the Group and its associates are only recognised insofar as they correspond to interests held by other non-related investors. This criterion is not applicable to recognition of unrealised losses constituting evidence of impairment of the asset transferred.

However, profits and losses on transactions between Group and associated companies regarding net assets that constitute a business are recognised fully.

Details of equity-accounted investees are included in Appendix I.

Impairment

The Group applies the impairment criteria contained in IAS 39 Financial Instruments: Recognition and Measurement to determine whether it is necessary to recognize any additional impairment loss with respect to the net investment in the associate or in any other financial asset held with it as a result of applying the equity method.

Impairment is calculated by comparing the carrying amount of the investment with its recoverable amount. The recoverable amount is the higher of value in use and fair value less costs of retirement or disposal. Value in use is calculated based on the Group's share of the present value of future cash flows expected to be derived from ordinary activities and the amounts that may arise from the final disposal of the associate.

The recoverable amount of the investment in the associate is assessed in relation to each associate, except when it does not constitute a cash generating unit (CGU).

Impairment losses are not allocated to goodwill or other assets implicit in the investment in associates derived from application of the acquisition method. In subsequent years, reversals of impairment of investments are recognised in profit or loss to the extent of any increase in the recoverable amount. Impairment losses are recognised separately from the Group's share of the profit or loss of an associate.

(e) Functional and presentation currency

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

(f) Property, plant and equipment

Initial recognition

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

Production costs are capitalised in the consolidated income statement under Work carried out for the Group's own assets . Property, plant and equipment are carried at cost, less any accumulated amortisation and impairment.

Subsequent costs

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

Depreciation

Property, plant and equipment are depreciated by allocating the depreciable amount of an asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset less its residual value.

Property, plant and equipment are depreciated using the following criteria:

	Depreciation method	Estimated years of useful life
Buildings	Straight-line	10 - 50
Technical installations and machinery (gas distribution network)	Straight-line	30 – 35
Technical installations and machinery (regulation and metering stations)	Straight-line	15 - 30
Technical installations and machinery (LNG plants)	Straight-line	12
Other installations, equipment and furniture	Straight-line	5 - 20
Technical installations and machinery (LPG installations)	Straight-line	17.5 - 30
Other property, plant and equipment	Straight-line	4 - 10

The Group reviews residual values, useful lives and depreciation methods at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

In 2018, as a result of the analysis performed on the useful life of its technical facilities, the Group believes that the best estimate of the useful life of gas distribution network is 35 years (previously 32 years) and the useful life of LPG installations is 30 years (previously 25 years). Consequently, the amortisation and depreciation heading in the 2018 consolidated income statement includes the impact of this estimate change which, pursuant to accounting legislation, was applied prospectively from 1 January 2018 and gave rise to a lower amortisation and depreciation amount of approximately Euros 9.3 million, which is decreasing as the useful life of the facilities ends.

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

Impairment

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

(g) Intangible assets

Goodwill

Goodwill is the excess between the consideration paid, plus the value given to non-controlling interests, plus the fair value of the previous interest in the acquired business and the net value of assets acquired and liabilities assumed.

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

The consideration paid excludes any payments that do not form part of the consideration given in exchange for the acquiree. Acquisition costs are recognised as an expense when incurred.

Goodwill represents the positive difference between the cost of the business combination and the value at the acquisition date of the assets acquired, liabilities and contingent liabilities taken on from the business acquired.

Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill arisen in business combinations is allocated to each cash-generating unit (CGU) or groups of CGUs that the Group expects to benefit from the synergies of the combination, applying the criteria mentioned. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill generated internally is not recognised as an asset.

Patents, licences, trademarks and similar rights

This caption corresponds to the cost of identifiable intangible assets acquired in the business combination and reflects their fair value, subject to the exceptions set forth in the business combinations section.

Separable and identifiable intangible assets correspond to the value assigned to clients / connection points by an independent expert in the process of identifying and allocating the acquisition cost of subsidiaries. As a result of this, these items were recognised separately to goodwill.

Computer software

The licenses for computer software acquired from third parties are capitalized at cost of acquisition plus the costs incurred to prepare them for the use the specific program.

Maintenance costs on computer software are recorded as an expense in the year in which they are incurred. Costs directly related to the production of unique and identifiable software controlled by the Group and which are likely to generate financial benefits above costs for more than one year are recognized as intangible assets. The direct costs include the costs of the personnel developing the software and an adequate percentage of overhead.

Useful life and amortisation rates

The Group assesses whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is regarded by the Group as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate net cash inflows.

Intangible assets with indefinite useful lives are not amortised, but are instead tested for impairment on an annual basis or whenever there is an indication that the intangible asset may be impaired.

Intangible assets with finite useful lives are amortised on a straight-line basis by allocating the depreciable amount of an asset on a systematic basis over the following estimated years:

	Amortisation method	Estimated years of useful life
Computer software	Straight-line	4
Patents, licences, trademarks and similar rights	Straight-line	40-60

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

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

Impairment

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

(h) Impairment of non-financial assets subject to amortisation or depreciation

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount.

The Group tests goodwill and intangible assets not yet available for use for impairment at least annually, irrespective of whether there is any indication that the assets may be impaired.

The recoverable amount of assets is the higher of fair value less costs of retirement or disposal and value in use.

Negative differences arising from comparison of carrying amounts of assets with their recoverable amounts are expensed, except in those cases in which the non-current asset is recorded at the revalued amount.

Recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

Impairment losses for cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs of retirement or disposal, its value in use and zero.

At the end of each reporting period the Group assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairments losses on goodwill may not be reversed. Impairment losses on assets other than goodwill are reversed if, and only if, there has been a change in the estimates used to calculate the asset's recoverable amount.

A reversal of an impairment loss is recognised in the income statement except when the non-current asset is recorded at its restated amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.
A reversal of an impairment loss for a CGU is allocated to the assets of each unit, except goodwill, pro rata with the carrying amounts of those assets. The carrying amount of an asset may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, had no impairment loss been recognised.

(i) Leases

Classification of leases

Leases in which, upon inception, the Group transfers to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases. All other leases are classified as operating leases.

Lessor accounting

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

Finance leases are those in which the Group transfers to third parties the significant risks and rewards of ownership of the asset. All other leases are classified as operating leases. The Group has no finance leases at 31 December 2018.

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

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

Lessee accounting

The Group has rights to use certain assets through lease contracts.

Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lease's benefit.

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

Contingent rents are recognised as an expense when it is probable that they will be incurred.

All of the Group's leases are operating leases.

(j) Financial instruments

The Group classifies and measures its financial assets, both current and non-current, as follows:

1. Assets at amortised cost:

This category includes the financial assets that meet the following conditions:

- The asset is held within the framework of a business model whose purpose is to hold financial assets in order to obtain contractual cash flows, and

- the contractual conditions of the financial asset give rise, on specified dates, to cash flows constituting solely payments of principal plus interest on the outstanding principle.

These assets are initially measured at fair value, plus any transaction costs, and then subsequently at amortised cost. The interest accrued is taken to the consolidated income statement applying the effective interest method. Nonetheless, financial assets falling due one year or less without a contractual interest rate are initially and subsequently measured at their nominal amount, if the effect of upgrading the cash flows is insignificant.

2. Financial assets at fair value through profit and loss

This category contains all other financial assets, including derivative financial instruments that do not meet the hedge accounting criteria in accordance with the requirements set out for this purpose in IFRS 9 Financial instruments.

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the acquisition or issue are recognised as an expense in the consolidated income statement when incurred. Changes in fair value are recognised in the consolidated income statement under the headings Finance cost and Finance income, as appropriate.

The Group identifies the most appropriate classification for each asset when it is acquired and this is reviewed at year end.

Prior to 1 January 2018 and the application of IFRS 9: Financial Instruments (note 2), the Group classified financial assets in the following categories:

− Loans and receivables: measured at amortised cost using the effective interest rate method;

− Assets held for trading: measured at fair value through profit and loss. The Group included in this category the derivative financial instruments that did not meet the hedge accounting criteria in accordance with the requirements set out for this purpose in IAS 39: Financial instruments.

Impairment of financial assets at amortized cost

The Group recognises value adjustments relating to expected credit losses on financial assets measured at amortised cost and contract assets.

The Group applies the general approach of calculating the expected loss of its financial assets.

The general approach considers expected credit losses for the next twelve months, except when the credit risk of a financial instrument has increased significantly since its initial recognition, in which case the expected credit losses for the entire life of the asset are considered. The Group assumes that the credit risk of a financial instrument has not increased significantly since its initial recognition if the financial instrument has a low credit risk at the closing date,

Impairment losses and reversals of impairment losses on trade receivables and contract assets are recognised under Change in trade receivables and contract assets in the consolidated income statement. Impairment losses and reversals of impairment losses on other financial assets at amortised cost are recognised under Impairment and gains/(losses) on disposals of financial instruments in the consolidated income statement.

Derecognition of financial assets

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

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in other comprehensive income, is recognised in the consolidated income statement.

In this sense, at the end of the financial year 2018, the Group has carried out transactions for which Euros 50 million have been derecognised from its assets recorded under caption Trade and other receivables upon compliance with the conditions detailed above.

Classification and measurement of financial liabilities

The Group classifies all financial liabilities as measured at amortised cost using the effective interest rate method, except derivative financial instruments that do not meet the hedge accounting criteria in accordance with the requirements set out for this purpose in IFRS 9: Financial Instruments, which are recognised at fair value through profit and loss.

Derecognition of financial liabilities

Financial liabilities are derecognised where they are extinguished, i.e., when the obligation deriving from the liability has been discharged or cancelled, or it has expired. When there is an exchange of debt instruments between the Group and the counterparty, provided that they have substantially different conditions, the original financial liability is eliminated, and the new financial liability is recognised. Similarly, any substantial modification to the current conditions affecting a financial liability is recognised.

The difference between the carrying amount of the financial liability, or a portion thereof, which has been eliminated and the consideration paid, including the attributable transaction costs and under which any assigned asset that is different from the assumed asset or liability is recorded, is recognised in the consolidated income statement in the year in which this occurs.

The Group considers the terms to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

When there is an exchange of debt instruments that do not contain substantially different conditions, the modified flows are discounted at the original effective interest rate and any difference in the prior carrying amount is recognised in the consolidated income statement. Similarly, any costs or fees incurred adjust the carrying amount of the financial liability and are amortised over the remaining term of the modified liability.

Interest and dividends

Interest revenue is recognised based on outstanding principal and taking into consideration the applicable effective interest rate, which matches the carrying value of the asset, discounting expected future cash flows over the estimated useful life of the asset.

Dividend income is recognised when the right to receive payment is established.

Derivative financial instruments

Derivative financial instruments are initially recognised at acquisition cost in the consolidated balance sheet and subsequently all measurement adjustments that are necessary are applied to reflect their fair value at any given moment. Gains and losses arising from these changes are recognised in the consolidated income statement, unless the derivative has been designated as a cash flow hedge, or net foreign investment hedge instrument.

Embedded derivatives

The derivatives embedded in financial liabilities and transactions whose primary contract lies outside the scope of IFRS 9: Financial instruments are recognised separately when their characteristics and risks are not closely related to those of the host contracts in which they are embedded, provided that the contract taken as a whole is not stated at fair value, recognising changes in the value by applying a charge or credit to the consolidated income statement.

Fair value of derivative financial instruments

The fair value of the various derivative financial instruments is calculated using the following procedures.

− The fair value of derivatives listed on an organised market is their market price at the year-end.

− To measure derivatives not traded on an organised market, the Nortegas Group uses assumptions based on year-end market conditions. Specifically,

- the fair value of interest rate swaps is calculated as the value adjusted to the market interest rates for the rate spread in the swap agreement;

- the measurement of this item in futures contracts is calculated by discounting future cash flows determined using the future exchange rates in place at the year-end;

- finally, the fair value of the acquisition contracts for non-financial items to which IFRS 9 is applicable are calculated based on the best estimate of the future price curves for those non-financial items existing at the date the consolidated annual accounts are closed, using the prices established in future markets to the extent possible.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(k) Distributions to Shareholders

Dividends, whether in cash or in kind, are recognised as a reduction in equity when approved by the sole shareholder.

(l) Inventories

Group inventories consist of LPG held in tanks and are measured at the lower of the weighted average acquisition cost or the sale price.

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

(m) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

In the consolidated statement of cash flows, bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents. Bank overdrafts are recognised in the consolidated balance sheet as financial liabilities arising from loans and borrowings.

(n) Capital grants

This heading includes any non-repayable subsidy granted by the government whose purpose is to finance capital assets, plant and equipment. All capital grants are taken to the heading Other operating income in the consolidated income statement as the subsidised items are depreciated.

(o) Connection and extension rights

Amounts paid by customers on account of connection rights for the installations needed to facilitate new supplies or extend existing ones are recorded under non-current and current Contract liabilities on the consolidated balance sheet, and recognised as income over the useful life of the extended installations they finance or, if appropriate, when the assets are sold or restated due to impairment losses. They are recognised as income under Other operating income in the consolidated income statement as the subsidised facilities are amortised.

(p) Employee benefits

Defined contribution plans

The Group recognises the contributions payable to a defined contribution plan in exchange for a service when an employee has rendered service to the Company. The amount of the contributions accrued is recognised as an employee benefits expense.

Short-term employee benefits

Short-term employee benefits are different from redundancy indemnities that are expected to be settled in full before 12 months after the end of the reporting period in which the employees render the related services.

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

Redundancy indemnities

Pursuant to current employment law, in certain circumstances the Group is liable to pay redundancy indemnities to employees whose services are discontinued.

(q) Provisions

General criteria

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated. The discount rate is determined before taxes, taking into consideration the time value of money, as well as the specific risks that have not been included in the future cash flows relating to the provision at each closing date.

Single obligations are measured using the individual most likely outcome.

The financial effect of provisions is recognised as a finance cost in profit or loss.

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

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed. The provision is reversed against the income statement caption in which the related expense was recognised, and any surplus is accounted for in other income.

In turn, contingent liabilities are considered as those potential obligations arising from past events that are conditional upon one or more future events that are beyond the control of the Group. These contingent liabilities are not subject to accounting record but are disclosed in the relevant notes.

(r) Recognition of revenue

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

The Group assesses whether a transaction is comprised of different components, in order to apply the appropriate income recognition criteria to each one.

Revenue from sales

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

The Group estimates these settlements accrued at 31 December 2018 and pending settlement by the Spanish National Markets and Competition Commission (CNMC). The final settlement for 2018 had not been published at the date these annual accounts were authorised for issue. However, it is not expected to differ significantly from the estimates, including the deficit estimate.

Royal Decree-Law 8/2014 approving urgent measures for growth, competitiveness and efficiency, enacted by means of Law 18/2014, establishes the principle of economic and financial sustainability of the gas system. Hence, any measure that could lead to an increase in costs or a reduction in income must incorporate an equivalent reduction of other cost items or an equivalent increase in income to ensure the system is balanced. It also limits annual gaps between the system's income and costs in that these cannot exceed 10 percent of the final revenues for the year and the amount of the annual gaps and annual amounts recognised pending settlement cannot exceed 15 percent of this amount. Revenues received as remuneration for distribution activity each year are set ex ante. The Ministerial Orders published at the end of each year establish the remuneration for the coming year based on expected sales and new customers for that year. As a result, the remuneration amount is subject to change for up to two years, until the definitive data on demand and new customers are available for the year analysed. .

Revenues received as remuneration for distribution activity each year are set ex ante. The Ministerial Orders published at the end of each year establish the remuneration for the coming year based on expected sales and new customers for that year. As a result, the remuneration amount is subject to change for up to two years, until the definitive data on demand and new customers are available for the year analysed. Order TEC/1367/2018, published on 22 December 2018, adjusted the remuneration for 2018 and 2017 based on the most up-to-date figures on sales and consumers.

Order TEC/1367/2018, published on 22 December 2018, established the remuneration for distribution activity for 2019 through application of the parameters established by Law 18/2014 of 15 October 2014 approving urgent measures for growth, competitiveness and efficiency. This law reformed the remuneration for gas activities with a view to eliminating deficits in the settlement system.

Pursuant to the above, this remuneration for distribution activities will be adjusted once the final amounts of this remuneration have been set by the Spanish Ministry for Ecological Transition based on the actual figures for the average increase in consumers and KWh distributed. The Group does not expect significant differences to arise between the amounts recognised and the final settlements. Nevertheless, any differences will be recognised as a change in accounting estimate in the consolidated income statement when they arise.

During 2016 the final settlement for Regulated Gas Sector Activities for 2014 and 2015 was received. The amount of the gas sector deficit for 2014, which included the accumulated deficits of prior years, was concluded to be Euros 1,025 million, recoverable by the regulated parties in fifteen consecutive annual amounts from 25 November 2016 to 24 November 2031, at market interest rates. The amount of the deficit corresponding to the Group amounted to Euros 55,921 thousand and it was securitised before 31 December 2017. The deficit amount for 2015 was concluded to be Euros 27 million, recoverable in five annual amounts (from 25 November 2016 to 24 November 2021) at the market interest rate, which was set at 0.836% based on Order TEC/1367/2018. The amount of the deficit corresponding to the Group amounts to Euros 1,737 thousand and it has been securitised before 31 December 2018. With regards 2016, pursuant to the final settlement made by the Spanish National Markets and Competition Commission, the deficit amounted to Euros 90 million, of which Euros 5.3 million corresponded to Nortegas Energía Distribución, S.A.U. (formerly Naturgas Energía Distribución, S.A.U.), at an interest rate of 0.716% (Order TEC/1367/2018), and it has been securitised before 31 December 2018.

The final 2017 settlement produced a deficit of Euros 24.8 million, whereby Nortegas Group companies have to assume a deficit of Euros 1.6 million, with an applicable interest rate of 0.923% (Order TEC/1367/2018), which is recognised as pending collection at 31 December 2018.

Services rendered

Revenue from inspection services rendered and rental of gas meters and others are recognised when the service is rendered.

The Group regularly checks if any service contract is onerous and makes provision where appropriate.

Interest and dividends

Interest is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of a financial instrument to the net carrying amount of that financial instrument based on the contractual terms of the instrument and not considering future credit losses.

Income from dividends on investments in equity instruments is recognized in profit or loss when the Group's right to receive payment is established.

Standards applied in prior years

Up until 2018 the Group's revenues were essentially recognised in accordance with the standards established by IAS 18: Revenue recognition and IAS 11: Construction contracts. IAS 18 gave rise to the recognition of revenue within a model based on the analysis of the transfer of risks, while IFRS 15, Revenue from contracts with customers, is based on a transfer of control model.

The main differences between IFRS 15 and the revenue recognition standards applied in prior years are set out in note 2.

(s) Income tax

Tax expense (income) comprises current tax and deferred tax.

Current tax is the amount of income tax payable or recoverable in respect of the consolidated taxable income or consolidated tax loss for the year. Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or are about to be enacted at the reporting date.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences, whereas deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses, and the carryforward of unused tax credits. Temporary differences are defined as differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Current and deferred tax are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity, or from a business combination.

The Group recognises tax allowances for investments according to the criteria for measuring and recording deferred and current tax assets, unless in the form of a grant. If deductions are in the form of a grant, they are recognised and stated in accordance with the corresponding accounting policy. For these purposes, the Group considers as grants those deductions that are applicable regardless of whether tax is payable and have substantive operating conditions in addition to the making or holding of the investment.

Recognition of deferred tax liabilities

The Group recognises deferred tax liabilities derived from taxable temporary differences in all cases except:

- they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income;
- they are associated with investments in subsidiaries, associates and joint ventures for which the Group is able to control the timing of the reversal of the temporary difference and it is not probable that the difference will reverse in the foreseeable future.

Recognition of deferred tax assets

The Group recognises deferred tax assets provided that:

- it is probable that sufficient taxable income will be available against which they can be utilised or when tax legislation envisages the possibility of converting deferred tax assets into a receivable from public entities in the future. Nonetheless, assets arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income, are not recognised;
- the temporary differences are related to investments in subsidiaries, associates and joint ventures providing the temporary differences will reverse in the foreseeable future and sufficient taxable income is expected to be generated against which the differences can be offset;

It is considered probable that the Group will generate sufficient taxable profit to recover deferred tax assets when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which are expected to reverse in the same tax period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from a deductible temporary difference can be carried back or forward.

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

Measurement of deferred tax assets and liabilities

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or are about to be enacted. The tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

The Group reviews the carrying amount of deferred tax assets at the reporting date and reduces this amount to the extent that it is not probable that sufficient taxable profit will be available against which to recover them.

Deferred tax assets that do not meet the aforementioned conditions are not recognised in the consolidated balance sheet. At year end, the Group reassesses whether the conditions for recognising previously unrecognised deferred tax assets have been met.

Offsetting and classification

The Group only offsets current tax assets and liabilities if it has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation

The Parent company filed consolidated tax returns under the Bizkaia provincial regime with its sole shareholder Nortegas Energía Grupo, S.L.U. and NED Suministro GLP, S.A.U. (subsidiary) in the year ended 31 December 2018.

The subsidiary NED España Distribución Gas, S.A.U. files separate taxes.

In addition to the factors to be considered for individual taxation, set out previously, the following factors are taken into account when determining the accrued income tax expense for the companies forming the consolidated tax group:

- Temporary and permanent differences arising from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income.

- Deductions and credits corresponding to each company forming the consolidated tax group. For these purposes, deductions and credits are allocated to the company that carried out the activity or obtained the profit necessary to obtain the right to the deduction or tax credit.

Temporary differences arising from the elimination of profits and losses on transactions between tax group companies are allocated to the company which recognised the profit/loss and are valued using the tax rate of that company.

A reciprocal credit and debit arises between the companies that contribute tax losses to the tax group and the rest of the companies in the tax group that offset those losses. Where a tax loss cannot be offset by the other companies in the tax group, these tax credits for loss carryforwards are recognised as deferred tax assets using the applicable recognition criteria, considering the tax group as a taxable entity.

(t) Segment reporting

A business segment is a component of the Group that develops business activities that can generate ordinary income and incur expenses, the operating results of which are reviewed regularly by the Group's senior operational decision-making authority, to decide on resources to be allocated to the segment, assess its performance and in relation to which separate financial information is available.

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

The Group comprises the following operating segments:

- Natural gas

- LPG - Liquefied Petroleum Gas

The accounting policies applicable to the segments are those set forth herein in note 5.

The method of obtaining this financial information by segment is based on assigning each of the companies within the scope of consolidation to an activity, since each company/segment relates to a different activity.

The consolidation process has been carried out strictly in accordance with the principles and standards governing its legal consolidation.

The results of associates are included in the segment of activity they carry out, i.e. distribution of natural gas.

(u) Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated balance sheet as current and non-current. Current assets and liabilities are determined as follows:

- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are expected to be realised within twelve months after the reporting date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least twelve months after the reporting date.
- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within 12 months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.
- Financial liabilities are classified as current when they are due to be settled within 12 months after the reporting date, even if the original term was for a period longer than 12 months, and an agreement to refinance or to reschedule payments on a long-term basis is completed after the reporting date and before the consolidated annual accounts are authorised for issue.

(v) Environmental issues

Property, plant and equipment acquired by the Group for long-term use to minimise the environmental impact of its activity and protect and improve the environment, including the reduction and elimination of future pollution from the Group's activities, are recognised as assets applying the measurement, presentation and disclosure criteria described in section (d) Property, plant and equipment.

The outcome of the Group's activity on the environment is not significant. Expenses derived from environmental activities are recognised as other operating expenses in the period in which they are incurred.

(w) Transactions between Group companies excluded from the consolidated group

Transactions between Group companies excluded from the consolidated group, except those related to mergers, spin-offs and non-monetary contributions, are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

4. <u>Business combinations</u>

The Group has not conducted any business combinations in 2018.

With regards 2017, as explained in note 3. b), during the eight-month period ended 31 December 2017, and as a result of the Merger, Nortegas Energía Distribución, S.A.U.'s operations were included from the date on which Nature Gasned XXI S.L.U. acquired this company.

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

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

(1) Corresponds to the fair value of the contingent payment to the former shareholder agreed on the basis of the dividends payable by the Company over the following 15 years up to a maximum amount of Euros 203 million. Based on the Group's projections, the Directors have estimated that this amount will be settled in the next 5 years. Fair value has been calculated by discounting estimated payment amounts for each year at a rate of 1.50%

During the year ended 31 December 2018, deferred payments amounting to Euros 4,632 thousand have been made.

The assets and liabilities of Nortegas Energía Distribución, S.A.U. and subsidiaries as the acquired company for accounting purposes were included in the consolidated balance sheet at fair value at the date of acquisition.

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

	Fair value (Thousands of Euros)
Intangible assets	1,534,457
Property, plant and equipment	1,083,481
Equity-accounted investees	609
Other non-current financial assets	58,245
Deferred tax assets	31,347
Inventories	4,335
Trade and other receivables	318,912
Other current financial assets	4,155
Prepayments	2,025
Cash and cash equivalents	43,102
Total assets	3,080,668
Non-current and current debts	1,430,066
Other non-current liabilities	420
Deferred tax liabilities	355,148
Trade and other payables	327,566
Other current liabilities	8,765
Total liabilities	2,121,965
Total net assets acquired	958,703

Goodwill amounts to Euros 46 million and comprises inseparable intangible assets and the effects of expected synergies. The allocation of Goodwill is detailed in note 8.

The contribution of net assets included in the transaction to the Group's net profit for the eight-month period ended 31 December 2017 since 27 July 2017 amounted to a profit of approximately Euros 11,988 thousand. If the acquisition had taken place on 1 January 2017, the increase in revenue for 2017 would have amounted to Euros 131,497 thousand, the increase in operating profit before amortisation/depreciation would be Euros 101,473 thousand and net profit for the year would be Euros 25,862 thousand.

The costs incurred in the acquisition were not significant.

This business combination has been accounted for definitively during the year ended 31 December 2018 and no changes have been made with regards the provisional recognition made during the eight-month period ended 31 December 2017.

5. Segment information

The table below contains segment information at 31 December 2018 and 2017 for each of the Group's businesses, obtained by applying the criteria described in note 3(t).

	Thousands of Euros		
	Segments		
31.12.2018	**Natural gas**	**LPG**	**Total**
Revenue	200,309	29,378	**229,687**
Work carried out for the Group's own assets	6,270	189	**6,459**
Supplies	(3,210)	(18,520)	**(21,730)**
Personnel expenses	(16,763)	-	**(16,763)**
Amortisation and depreciation	(75,414)	(6,449)	**(81,863)**
Change in trade receivables and contract assets	24	(83)	**(59)**
Other expenses	(31,284)	(4,189)	**(35,473)**
Other income	4,523	4,940	**9,463**
Results from operating activities	**84,455**	**5,266**	**89,721**
Finance income (unallocated)	-	-	**357**
Finance cost (unallocated)	-	-	**(28,612)**
Income tax (unallocated)	-	-	**33,495**
Share in profit from investments accounted for using the equity method (unallocated)	-	-	**191**
Profit/(loss) for the year			**95,152**
Segment assets	2,685,573	138,674	**2,824,247**
Segment liabilities	1,553,885	129,461	**1,683,346**

	Thousands of Euros		
	Segments		
31.12.2017	**Natural gas**	**LPG**	**Total**
Revenue	81,288	10,029	**91,317**
Work carried out for the Group's own assets	3,126	-	**3,126**
Supplies	(2,061)	(5,371)	**(7,432)**
Personnel expenses	(12,807)	-	**(12,807)**
Amortisation and depreciation	(35,205)	(3,653)	**(38,858)**
Change in trade receivables and contract assets	(398)	188	**(210)**
Other expenses	(10,747)	(1,529)	**(12,276)**
Other income	167	5,780	**5,947**
Results from operating activities	**23,363**	**5,444**	**28,807**
Finance income (unallocated)	-	-	**230**
Finance cost (unallocated)	-	-	**(12,691)**
Income tax (unallocated)	-	-	**(4,415)**
Share in profit from investments accounted for using the equity method (unallocated)	-	-	**57**
Profit/(loss) for the year			**11,988**
Segment assets	2,759,766	144,670	**2,904,436**
Segment liabilities	1,740,610	132,487	**1,873,097**

6. Subsidiaries

Appendix I contains information about the subsidiaries included in the Group's scope of consolidation at 31 December 2018 and 2017.

There have been no changes to the scope of consolidation (except those mentioned in notes 4 and 3b) during the year ended 31 December 2018 and the eight-month period ended 31 December 2017.

7. Property, plant and equipment

Details of property, plant and equipment and movement in 2018 and 2017 are as follows:

31.12.2018	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
	Thousands of Euros						
Cost at 31 December 2017	656	5,999	1,699,648	89,565	11,686	7,561	**1,815,115**
Additions	-	-	2,413	812	16,563	59	**19,847**
Disposals	(217)	(696)	(141)	(900)	(63)	-	**(2,017)**
Transfers	-	-	24,609	(5,983)	(18,626)	-	**-**
Cost at 31 December 2018	439	5,303	1,726,529	83,494	9,560	7,620	**1,832,945**
Accumulated amortisation at 31 December 2017	-	(3,395)	(673,004)	(66,836)	-	(6,037)	**(749,272)**
Amortisation	-	(146)	(49,865)	(3,567)	-	(335)	**(53,913)**
Disposals	-	696	19	890	-	-	**1,604**
Transfers	-	-	(3,301)	3,301	-	-	**-**
Accumulated amortisation at 31 December 2018	-	(2,845)	(726,151)	(66,212)	-	(6,372)	**(801,580)**
Carrying amount at 31 December 2018	**439**	**2,458**	**1,000,378**	**17,282**	**9,560**	**1,248**	**1,031,365**

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

The additions recognised in 2018 under the heading Under construction and advances for Euros 16,563 thousand (Euros 8,504 thousand in the eight-month period ended 31 December 2017), relate mainly to additions for investments in the proprietary network, network extensions in the Basque Country, Asturias and Cantabria and the development of networks in new municipalities.

Insurance

The Group has taken out an insurance policy to cover the risk of damage to its property, plant and equipment. The insured asset value of networks and pipelines, industrial installations, office buildings and electronic equipment amounts to Euros 2,012,063 thousand (Euros 1,794,068 thousand in 2017). In addition, there is automatic insurance coverage for damages of Euros 402,413 thousand (Euros 538,220 thousand in 2017).

Fully depreciated assets

The cost of fully depreciated property, plant and equipment in use at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	31.12.2018	**31.12.2017**
Buildings	1,268	1,964
Technical installations and machinery	154,855	149,396
Other installations, equipment and furniture	39,287	37,252
Other property, plant and equipment	4,759	4,205
	200,169	**192,817**

Property, plant and equipment pledged as collateral

At 31 December 2018 and 2017, the Group has not pledged any fixed assets to secure bank loans.

Commitments

At 31 December 2018 and 2017, the Group does not have any significant commitments to acquire assets.

8. Intangible assets

Details of intangible assets and movement during the year ended 31 December 2018 and 2017 are as follows:

	Thousands of Euros			
31.12.2018	**Patents, licences, trademarks and similar rights**	**Goodwill**	**Computer software**	**Total**
Cost at 31 December 2017	1,531,498	45,910	19,549	**1,596,957**
Additions	-	-	2,351	**2,351**
Cost at 31 December 2018	1,531,498	45,910	21,900	1,599,308
Accumulated amortisation at 31 December 2017	(10,775)	-	(12,993)	**(23,768)**
Amortisation	(25,773)	-	(2,177)	**(27,950)**
Accumulated amortisation at 31 December 2018	(36,548)	-	(15,170)	**(51,718)**
Carrying amount at 31 December 2018	**1,494,950**	**45,910**	**6,730**	**1,547,590**

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

At 31 December 2018 the Group has no commitments to acquire intangible assets.

Goodwill

Goodwill resulting from the business combination during the eight-month period ended 31 December 2017 (see note 4), which amounts to Euros 46 million, mainly comprises future profits on the activity of the Parent Company and of the subsidiaries listed in Appendix I, which do not meet the conditions established to be recognised as a separate asset.

The allocation of goodwill at 31 December 2018 and 2017 by Cash-Generating Unit (CGU) is as follows:

	Thousands of Euros	
	2018	**2017**
Gas natural Distribution in the Basque Country	15,302	15,302
Gas natural Distribution in Asturias and Cantabria	30,052	30,052
LPG distribution and supply	556	556
	45,910	**45,910**

Fully amortised assets

The cost of fully amortised intangible assets in use at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	31.12.2018	**31.12.2017**
Computer software	11,674	11,634
	11,674	**11,634**

Impairment

The Group has carried out an impairment test using the following main assumptions:

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

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

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

- Projections at 14 years with a growth rate from year 14 of between 0.25% and 0.75%.

- Discount rate before taxes of between 5.50% and 6.46% (between 5.65% and 6.39% in 2017). The discount rate applied to calculate the current values of free cash flows has been determined according to the weighted average cost of capital (WACC). WACC is a type of discount based on the required rates of return of each component of the capital invested (equity and financial debt) and is calculated by weighting the required returns of these components in proportion to the weight of each of these sources of financing in an expected capital structure. In this regard, the following has been taken into account in this calculation:

    - Cost of capital or own resources (Ke):

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

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

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

    - Cost of debt (Kd): we understand that the cost of the debt must reflect the cost at which a company could be financed.

    - Nominal tax rate applicable in each jurisdiction

The recoverable amount calculated in the aforementioned impairment test is a value higher than the carrying amount of the cash generating unit, so no impairment losses have been recognised for intangible assets or property, plant and equipment in the year ended 31 December 2018.

Sensitivity analysis

The Group carried out several sensitivity analyses on the results of the impairment test carried out using reasonable changes in the following assumptions in each cash-generating unit:

- A 0.5% increase in the discount rate.
- A 0.5% reduction in growth of supply points.
- A 0.5% slowdown in the growth of demand per supply point.
- A 10% decrease in distribution revenue.
- A 5% reduction in LPG consumption per supply point.

In these sensitivity analyses carried out for each individually considered assumption, no impairment has been detected in any of the cash generating units.

9. Investments in Equity-accounted associates

Below is the information regarding investments in equity-accounted associates at 31 December 2018 and 2017:

Name	Registered office	Activity	Auditor	Group company	% ownership	Amount of investment
Tolosa Gasa, S.A.	Tolosa (Gipuzkoa)	Natural gas distribution	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U.	40.00	260
Inkolan, A.I.E.	Bilbao (Vizcaya)	Compilation and management of all information relating to the networks installed by each partner in the Basque Country.	Moore Stephens AMS, S.L.	Nortegas Energía Distribución, S.A.U.	14.29	69
						329

Details of investments in the equity instruments of Group companies and associates in 2018 and 2017 and movement are as follows:

Company	Balance at 31 December 2017	Share in profit	Dividends received	Balance at 31 December 2018
Inkolan, A.I.E.	157	65	-	222
Tolosa Gasa, S.A.	509	126	(112)	523
	666	191	(112)	745

Company	Additions from business combinations (note 4)	Share in profit	Balance at 31 December 2017
Inkolan, A.I.E.	129	28	157
Tolosa Gasa, S.A.	480	29	509
	609	57	666

Associates have not incurred contingent liabilities.

10. Operating leases

The Group's main lease relates to the offices where it carries out its business.

Operating lease payments recognized as expenses in the period amounted to Euros 1,739 thousand (Euros 850 thousand in 2017) (see note 31).

Future minimum payments under non-cancellable operating leases are as follows:

	Thousands of Euros	
	31.12.2018	**31.12.2017**
Less than one year	802	1,276
One to five years	1,131	156
Over five years	387	715
	2,320	**2,147**

11. Financial assets by category

Classification of financial assets by category

The classification of financial assets by category and class at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	Non-current	**Current**
	At amortised cost or cost	
31.12.2018	**Carrying amount**	
Loans and receivables		
Loans to related parties (note 34)		
Fixed rate	-	37,280
Loans to unrelated parties		
Variable rate	1,265	318
Security and other deposits	1,114	67
Trade receivables for sales and services rendered	-	13,127
Trade receivables	-	6,520
Other receivables	-	138
Total	2,379	57,450
Total financial assets	**2,379**	**57,450**

On 20 July 2018 the Parent company granted a loan to its sole shareholder, Nortegas Energía Grupo, S.L.U., for Euros 37,000 thousand at an interest rate of 1.5%, which expires on 19 July 2019.

	Thousands of Euros	
	Non-current	Current
	At amortised cost or cost	
31.12.2017	Carrying amount	
Loans and receivables		
Loans		
Variable rate	5,320	13
Security and other deposits	1,215	198
Trade receivables for sales and services rendered	-	25,749
Trade receivables	-	67,391
Other receivables	-	190
Total	6,535	93,542
Total financial assets	**6,535**	**93,542**

The book values of trade credits and debits are assumed to approximate their fair value.

The amount of net losses and gains by financial asset category at 31 December 2018 amounts to income of Euros 357 thousand corresponding to accrued interest income (see note 33).

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

12. Current and non-current financial assets

Details of current and non-current financial assets at 31 December 2018 and 2017 are as follows:

	Thousands of Euros			
	2018		2017	
	Non-current	Current	Non-current	Current
Security deposits paid	228	43	328	198
Loans to related parties (note 11)	-	37,280	-	13
Loans to unrelated parties	1,265	318	5,320	-
Deposits given	886	24	887	-
Trade and other receivables (note 14)	-	19,785	-	93,330
Total	2,379	57,450	6,535	93,542

Non-current and current loans to unrelated parties include the deficit in the gas sector receivable (see notes 1.1(c) and 3(r)).

The fair values of loans and other receivables do not differ significantly from their carrying amounts.

13. Income tax

The Parent company, Nortegas Energía Distribución, S.A.U., its sole shareholder, Nortegas Energía Grupo, S.L.U., and the Group company NED Suministro GLP, S.A.U are taxed under the special tax consolidation regime, in adherence with Regional Corporation Tax Regulation 11/2013, of 5 December, whereby the parent company of the tax group is Nortegas Energía Distribución, S.A.U.

Without prejudice to this special tax regime, the subsidiary NED España Distribución Gas, S.A.U. files tax returns individually under Corporation Tax Act 27/2014 of 27 November.

Details of deferred tax assets and liabilities by type of asset and liability at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	31.12.2018	
	Assets	Liabilities
Property, plant and equipment and intangible assets	17,701	284,274
Deferred income	-	6,397
Provisions for redundancy indemnities	756	-
Activation of tax credits	445	-
Other	628	-
Total assets/liabilities	**19,530**	**290,671**

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

Details of movement in deferred taxes by type of asset and liability which has been recognised in tax deferred (expense)/income to 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	31.12.2018	
	Assets	Liabilities
Property, plant and equipment and intangible assets	(5,033)	(56,269)
Deferred income	-	(1,709)
Provisions for redundancy indemnities	(248)	-
Tax credits	(309)	-
Other	429	-
Total assets/liabilities	**(5,161)**	**(57,978)**

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

Details of income tax (expense)/income for the year ended 31 December 2018 and the eight-month period ended 31 December 2017 are as follows:

	Thousands of Euros	
	31.12.2018	31.12.2017
Current tax		
For the period	(18,720)	(6,312)
Prior years' adjustments	(602)	(35)
	(19,322)	(6,347)
Deferred taxes		
Origination and reversal of temporary differences		
Property, plant and equipment and intangible assets	51,236	1,536
Provisions for redundancy indemnities	(248)	1,004
Deferred income	1,709	31
Other	429	(828)
Activation/(application) of tax credits	(309)	189
Total deferred tax	52,817	1,932
	33,495	**(4,415)**

A reconciliation of current tax with current income tax liabilities for the year ended 31 December 2018 and the eight-month period ended 31 December 2017 is as follows:

	Thousands of Euros	
	2018	2017
Current tax	18,720	6,312
Additions from business combinations	-	1,847
Payments made during the period	(2,972)	(1,431)
Payables to Group companies due to tax effect (note 18)	(3,211)	-
Current income tax liabilities	12,537	6,728

Payables to Group companies due to tax effect includes the debt arising from the tax consolidation with Nortegas Energía Grupo, S.L.U., the Company's sole shareholder, whose accounts are not included in the scope of consolidation of these consolidated annual accounts.

The relationship between income tax (expense)/income and profit/(loss) from continuing operations for the year ended 31 December 2018 and the eight-month period ended 31 December 2017 is as follows:

	Thousands of Euros	
31.12.2018	**Profit and loss**	**Total**
Income and expenses for the period before tax	61,657	61,657
Tax	(15,788)	(15,788)
Effect of changes in tax rates	49,081	49,081
Prior years' adjustments	102	102
Other	100	100
Income tax (expense)/income From continuing operations	**33,495**	**33,495**

	Thousands of Euros	
31.12.2017	**Profit and loss**	**Total**
Income and expenses for the period before tax	16,403	16,403
Tax	(4,301)	(4,301)
Prior years' adjustments	(35)	(35)
Other	(79)	(79)
Income tax (expense)/income From continuing operations	**(4,415)**	**(4,415)**

Provincial Standard 2/2018 of 21 March was published on 27 March 2018, introducing among other measures, modifications to corporation tax and the general provincial tax regulation for the province of Bizkaia.

Among other measures, the general corporation tax rate is modified from 28% to 26% in 2018 and to 24% from 2019 onwards.

This tax rate change has given rise to a reduction in deferred tax on the consolidated income statement of Euros 49,081 thousand.

The Parent has the main applicable taxes open to inspection by the Spanish taxation authorities for the years that are not statute barred.

The other Group companies have all years open to inspection that are applicable to each individual company in accordance with current local legislation.

14. Trade and other receivables

Details of trade and other receivables at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	31.12.2018	**31.12.2017**
Sole shareholder (note 34)		
Other receivables	1,067	-
Associates (note 34)		
Other receivables	27	26
Unrelated parties		
Trade receivables	13,935	26,498
Other receivables	5,426	67,365
Personnel	138	190
Impairment allowances	(808)	(749)
Total	**19,785**	**93,330**

The caption Trade receivables -unrelated parties mainly includes the balances outstanding with natural gas suppliers for tolls charged and invoicing of liquefied gas to end customers.

The caption Other unrelated receivables at 31 December 2017 included a balance of Euros 41 million regarding the balance receivable for remuneration for 2017 from NED España Distribución de Gas, S.A.U., which has been settled during 2018.

Similarly, at 31 December 2017, Other receivables included an amount of Euros 10,710 thousand on account of VAT receivable from Redexis Gas, SA corresponding to the sale of gas networks in 2015 payable for the same amount to EDP Iberia, as parent of the VAT group in prior years, which was recorded on this date in the caption Other payables on the accompanying balance sheet. During 2018 this amount was received from Redexis Gas, S.A. and paid to EDP Iberia.

At 31 December 2017 it included an amount of Euros 8 million relating to the measurement differences generated by the system for 2012, 2013, 2016 and 2017 between the estimate made by the Company and the remuneration allocated by the Company in those years. These amounts have been received in 2018.

(a) Valuation adjustments

Movement in valuation adjustments due to the uncollectibility of trade and other receivables in the year ended 31 December 2018 and the eight-month period ended 31 December 2017 is as follows:

	Thousands of Euros
	31.12.2018
Balance at 31 December 2017	(749)
Charges	(83)
Reversals	24
Balance at 31 December 2018	(808)

	Thousands of Euros
	31.12.2017
Balances at 31 March and 30 April 2017	-
Additions from business combinations	(539)
Charges	(210)
Balance at 31 December 2017	(749)

15. Other current assets

Details of other current assets are as follows:

	Thousands of Euros	
	2018	**2017**
Receivables from public entities		
Tax authorities - VAT receivable	2,163	1,900
Adjustments for prepayments	1,612	2,239
Total	3,775	4,139

Adjustments for prepayments

This caption includes an amount of Euros 1,350 thousand (Euros 1,800 thousand at 31 December 2017) for the prepayment of insurance premiums that Nortegas Energía Distribución, S.A.U. and NED Suministro GLP, S.A.U. have signed with EDP Iberia.

On 20 April 2017, an agreement was signed whereby EDP Iberia guaranteed NED Suministro GLP, S.A.U. a minimum gross margin per supply point acquired from Repsol Butano, S.A. prior to 31 December 2016. This minimum gross margin is equal to at least the margin budgeted by the EDP Group when it performed a valuation of the purchase transaction. Should it fail to meet the agreed minimum gross margin, EDP Iberia must make a cash payment that is equal to the difference between the amount estimated during the valuation of the supply points purchased from Repsol and the actual margin obtained.

This agreement will remain in force until its expiry on 31 December 2021.

On 20 April 2017 a contract was signed whereby EDP Iberia guarantees Nortegas Energía Distribución, S.A.U. compensation in the event of changes in the regulations affecting the remuneration of gas meter rentals with respect to the regulation approved for 2017. This guarantee only covers the effect of a regulatory change relating to this matter in the years 2018 to 2021.

16. Cash and cash equivalents

Details of cash and cash equivalents are as follows:

	Thousands of Euros	
	31.12.2018	**31.12.2017**
Cash	7	7
Banks	157,061	130,527
	157,068	130,534

17. Equity

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

Capital

At 31 December 2018 and 2017, the Company's share capital consists of 1,000,000 registered shares with a par value of Euros 100 each, fully subscribed and paid in. All shares bear the same political and financial rights.

These shares are freely transferable.

On 25 July 2017, prior to the Company's acquisition date, the sole shareholder of Nature Gasned XXI, S.L.U. carried out a share capital increase of Euros 822,407 thousand, which, as a result of the reverse merger, has been recorded against the share premium and reserves captions at Euros 814,183 thousand and Euros 8,224 thousand, respectively. Furthermore, a shareholder contribution of Euros 196,941 thousand was also made.

On 20 December 2018 the sole shareholder assumed a creditor position in the shareholder loan held by Nature Investments, SARL and thus held a debt claim against the Parent company in the amount of Euros 127,303 thousand. Subsequently, on 21 December 2018, the sole shareholder of the Parent company decided to make a contribution to the Company's equity in the amount of Euros 127,303 thousand consisting of the contribution of the debt claim held by the sole shareholder against the Company.

That contribution, which is irrevocable and does not accrue any consideration whatsoever to the sole shareholder, is intended to increase the Company's capital and reserves in order to strengthen its financial situation and its equity.

The aforementioned shareholder loan to the Company was completely extinguished by this contribution due to the fact that the Company holds the creditor and debtor rights, by virtue of the provisions of Article 1192 of the Civil Code.

At 31 December 2018 and 2017 the Company's sole shareholder is Nortegas Energía Grupo, S.L.U. The Company is thus registered at the Mercantile Registry as a single shareholder company.

Transactions with the sole shareholder are detailed in note 34 to the consolidated annual accounts.

The Group's objectives in managing capital are to safeguard its ability to operate as a going concern so that it can continue to perform its core natural gas distribution activities as a regulated company, keeping a solvent, reasonable and optimum capital structure, reducing the cost of capital and also ensuring the sustainability of its activities in the long term. At the same time generating profits for shareholders and benefiting the rest of the stakeholders with whom the Group interacts.

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

The main mechanism used by the Group to control and ensure long-term financial solvency is the attainment and maintenance of an investment grade rating (BBB-) (Note 21). Net Financial Debt/EBITDA ratio is one of the metrics that the Group overseas to evaluate its capital structure. EBITDA is determined as the operating income plus depreciation and amortisation and impairment for the period. Net financial debt is determined as the sum of the financial debts less cash and cash equivalents.

In this regard it is significant to highlight that, due to its subordinate nature, the calculation of Net Financial Debt does not include the outstanding amount at 31 December 2017 of the loan granted by Nature Investments SARL (Euros 127,303 thousand at this date), or the accrued interest payable, amounting to Euros 2,794 thousand in 2017.

Due to the uniqueness of the 2017 period (see note 2), the proforma EBITA from 1 January 2017 to 31 December 2017 has been used to calculate the ratio, as detailed in the Directors' Report.

The Net Financial Debt/EBITDA ratio in 2018 and 2017 is determined as follows:

	Thousands of Euros	
	2018	**2017**
Liabilities from the issue of bonds and other marketable securities (current and non-current) (note 18)	1,297,654	1,297,318
Security deposits (current and non-current) (note 18)	1,205	1,207
Other financial liabilities (current and non-current) (note 18)	1,192	1,193
Associates (note 18)	454	386
Group companies (note 18)	6,287	-
Loans and borrowings (note 18)	1,692	50
Total financial debt	1,308,484	1,300,154
Less: Cash and cash equivalents	(157,068)	(130,534)
Net financial debt	1,151,416	1,169,620
EBITDA (1)	171,584	169,139
Net financial debt/EBITDA ratio	6.71	6.92

(1) In 2017, Proforma 1 January 2017 to 31 December 2017 (note 1).

Share premium

The revised Spanish Companies Act expressly allows for the use of the share premium balance for capital increases and does not establish any specific restrictions regarding the availability thereof. The share premium resulted from the capital increase carried out by Nature Gasned XXI S.L.U. on 25 July 2017.

However, at 31 December 2018 a non-distributable amount of Euros 23,610 thousand is included therein (Euros 25,297 thousand at 31 December 2017), attributable to the legal revaluations of assets of the Group.

This balance shall remain non-distributable until it has been inspected and approved by the tax authorities. That verification must take place within three years following the date on which the return reporting the restatement is filed. For these purposes, the balance of the share premium account will not be understood to be used in the following cases:

a) When the partner or shareholder exercises their right to leave the company.

b) When the balance of the account is used, in full or in part, as a result of transactions eligible for the special regime for mergers, divisions, transfers of assets, exchanges of shares and change of registered address of a European Company or European Cooperative Company from one EU member state to another in the, pursuant to chapter X, title VIII of Provincial Corporation Tax Regulation 3/1996 of 26 June.

c) When the company needs to apply the balance of the account due to a legal obligation.

Once the revaluation has been agreed with the tax authorities or after the inspection period has expired, the balance of the reserve may be applied to offset prior years' losses, to increase share capital or to increase distributable reserves after ten years have elapsed from the closing date of the balance sheet in which the revaluations were recorded. However, this balance may only be directly or indirectly distributed when the restated assets have been fully depreciated, sold or written-off from the balance sheet.

On 6 December 2017, the Board of Directors proposed the distribution of an extraordinary dividend charged to freely available reserves to the sole shareholder. On 22 January 2018 the sole shareholder agreed the distribution of the share premium amounting to Euros 112,892,799.78.

Other reserves

This caption includes an amount of Euros (91,773) thousand on account of the difference arising in the reverse merger described in note 4 between the share capital of the legal acquirer (accounting acquiree) Nortegas Energía Distribución, S.A.U. and the share capital of the legal acquiree (accounting acquirer) Nature Gasned XXI, S.L.U. and also the distribution of profit from the prior year for an amount of Euros 11,988 thousand.

Profit/(loss) for the period

The contribution of each company included in the consolidated group to consolidated profit/(loss), indicating the portion relating to non-controlling interests in the year ended 31 December 2018 and in the eight-month period ended 31 December 2017, is as follows:

	Thousands of Euros	
	Consolidated Profit/ (loss)	
	31.12.2018	**31.12.2017**
Company		
Fully consolidated companies		
Nortegas Energía Distribución, S.A.U.	74,639	1,385
NED España Distribución Gas, S.A.U.	18,261	7,290
NED Suministro GLP, S.A.U.	2,061	3,255
	94,961	11,930
Equity-consolidated companies:		
Inkolan, A.I.E.	65	28
Tolosa Gasa, S.A.	126	30
Total	**95,152**	**11,988**

Distribution of the Parent Company's profit/loss

The proposed distribution of the Parent Company's profit for the year ended 31 December 2018 to be submitted to the sole shareholder for approval is as follows:

	2018
Basis of distribution	
Profit for the year	81,450,884.88
Distribution	
Legal reserve	8,145,088.49
Voluntary reserves	73,305,796.39
	81,450,884.88

18. Financial liabilities by category

Classification of financial liabilities by category

The classification of financial liabilities by category and class at 31 December 2018 and 2017 is as follows:

	Thousands of Euros				
	Non-current			Current	
	At amortised cost or cost			At amortised cost or cost	Total
31.12.2018	**Carrying amount**	**Fair value**	**Total**	**Carrying amount**	**Total**
Debts and payables					
Bonds and other marketable securities (note 21)					
Fixed rate	1,292,309	1,276,610	1,292,309	5,345	5,345
Loans and borrowings	-	-	-	1,692	1,692
Group companies (note 34)	-	-	-	6,287	6,287
Associates (note 34)	-	-	-	454	454
Security deposits	1,086	1,086	1,086	119	119
Other financial liabilities	1,105	1,105	1,105	87	87
Trade and other payables					
Suppliers	-	-	-	2,638	2,638
Payables	-	-	-	47,259	47,259
Payables on fixed assets	-	-	-	4,443	4,443
Other payables	-	-	-	629	629
Total financial liabilities	**1,294,500**	**1,278,801**	**1,294,500**	**68,953**	**68,953**

	Thousands of Euros				
	Non-current			Current	
	At amortised cost or cost			At amortised cost or cost	Total
31.12.2017	Carrying amount	Fair value	Total	Carrying amount	Total
Debts and payables					
Bonds and other marketable securities (note 21)					
Fixed rate	1,291,899	1,317,887	1,291,899	5,419	5,419
Loans and borrowings	-	-	-	50	50
Group companies (note 34)	127,303	127,303	127,303	2,794	2,794
Associates (note 34)	-	-	-	386	386
Security deposits	1,088	1,088	1,088	119	119
Other financial liabilities	1,193	1,193	1,193	-	-
Trade and other payables					
Suppliers	-	-	-	3,845	3,845
Payables	-	-	-	46,900	46,900
Payables on fixed assets	-	-	-	7,414	7,414
Other payables	-	-	-	1,706	1,706
Total financial liabilities	**1,421,483**	**1,447,471**	**1,421,483**	**68,634**	**68,634**

At 31 December 2018 current payables to Group companies includes the debt with the sole shareholder due to current tax arising from the consolidated tax regime amounting to Euros 3,211 thousand (notes 13 and 34).

Net losses and gains by financial liability category

Net losses and gains by financial liability category for the year ended 31 December 2018 and the eight-month period ended 31 December 2017 are as follows:

	Thousands of Euros			
	2018		2017	
	Debts and payables	Total	Debts and payables	Total
Finance cost measured at amortised cost (note 33)	27,071	27,071	9,709	9,709
Other (note 33)	1,541	1,541	349	349
Net (gains)/losses in profit and loss	**28,612**	**28,612**	**10,058**	**10,058**
Total	**28,612**	**28,612**	**10,058**	**10,058**

19. Current and non-current financial liabilities

Details of current and non-current financial liabilities at 31 December 2018 and 2017 are as follows:

	Thousands of Euros			
	2018		2017	
	Non-current	Current	Non-current	Current
Bonds and other marketable securities (note 21)	1,292,309	5,345	1,291,899	5,419
Loans and borrowings	-	1,692	-	50
Group companies and associates (note 20)	-	6,741	127,303	3,180
Security deposits received (note 20)	1,086	119	1,088	119
Other financial liabilities (Note 20)	1,105	87	1,193	-
Trade and other payables (note 22)	-	54,969	-	59,866
Total	**1,294,500**	**68,953**	**1,421,483**	**68,634**

20. Financial liabilities by debt

Details of financial liabilities by debt are as follows:

	Thousands of Euros			
	2018		2017	
	Non-current	Current	Non-current	Current
Related parties				
Payables	-	6,741	127,303	3,180
Unrelated parties				
Loans and borrowings	-	1,692	-	50
Other payables	1,105	87	1,193	-
Security and other deposits received	1,086	119	1,088	119
Total	**2,191**	**8,639**	**129,584**	**3,349**

Non-current payables with related parties at 31 December 2017 comprises a subordinated loan granted on 27 July 2017 by Nature Investments SARL to the Parent Company for Euros 127 million, with maturity on 31 December 2024 or one month after the maturity of the bonds (note 21) and at a fixed interest rate of 5% (see note 34). This loan was cancelled in 2018, as explained in note 17. As a result of this transaction, no impact on the income statement has been recognised, as the difference with fair value was not significant.

Current payables to related parties at 31 December 2018 mainly includes the interest payable on the aforementioned loan amounting to Euros 3,076 thousand and the debt with the sole shareholder for current tax arising from the consolidated tax regime amounting to Euros 3,211 thousand (notes 13, 34 and 18).

The lending entities have not called for any form of guarantee on the aforementioned loans.

Credit facilities and other financing lines

The Group has a credit facility with a limit of Euros 100 million. At 31 December 2018, no amount was drawn down by the Group.

21. Liabilities from the issue of bonds and other marketable securities

On 13 September 2017, Nortegas Energía Distribución, S.A.U. obtained a credit rating of BBB- from the international credit rating agency Standard & Poors (S&P), which corresponds to an investment grade, both for the company and for the Euro Medium Term Note Programme (EMTN).

On 18 December 2018 S&P issued a new credit report on Nortegas Energía Distribución maintaining investment grade credit rating (BBB-).

On 28 September 2017 the Group carried out two bond issues within the framework of the Euro Medium Term Note Programme (EMTN) and these also obtained the S&P rating of BBB-. The first is an issue of Euros 550 million, which matures on 28 September 2022. The issue price was 100% and the annual interest rate is 0.918% payable annually on 28 September.

The second is a bond issue for Euros 750 million. This issue matures on 28 September 2027. The issue price was 100% and the annual interest rate is 2.065% payable annually on 28 September.

The average interest rate of these two bond issues is 1.58%.

On 31 December 2018 accrued interest payable amounts to Euros 5,345 thousand (Euros 5,419 thousand in 2017) and is classified in the consolidated balance sheet caption current Liabilities from the issue of bonds and other marketable securities.

21.1 Statement of cash flows

Movement in liabilities classified as financing activities in the statement of cash flows for the year ended 31 December 2018 and the eight-month period ended 31 December 2017, excluding the equity headings, is as follows:

		Cash flows					
Thousands of Euros (2018)	**Balance at 31.12.2017**	**Issue**	**Reimbursements**	**Interest paid**	**Accrued interest**	**Non-redeemable expenses and other**	**Balance at 31.12.2018**
Bonds	1,291,899	-	-	-	1,365	(955)	1,292,309
Loans and borrowings	-	1,642	-	-	-	-	1,642
Group companies and associates	127,689	68	-	-	-	(124,093)	3,664
Other financing operations	2,400	87	(113)	-	24	(1)	2,397
Accrued interest payable	8,263	-	-	(27,015)	27,223	-	8,472
Total financial debt-loans and other	**1,430,251**	**1,797**	**(113)**	**(27,015)**	**28,612**	**(125,049)**	**1,308,484**

Thousands of Euros (2017)	Balance at 30.04.2017	Additions due to business combination	Cash flows Issue	Cash flows Reimbursements	Cash flows Interest paid	Accrued interest	Non-redeemable expenses and other	Balance at 31.12.2017
Bonds	-	-	1,300,000	-	-	349	(8,450)	1,291,899
Loans and borrowings	-	1,427,303	-	(1,427,303)	-	-	-	-
Group companies	-	321	127,303	-	-	-	65	127,689
Other financing operations	-	2,171	-	-	-	-	229	2,400
Accrued interest payable	-	271	-	-	(1,717)	9,709	-	8,263
Derivative financial instruments		(3,940)	1,307	-	-	2,633	-	-
Total financial debt-loans and other	**-**	**1,426,126**	**1,428,610**	**(1,427,303)**	**(1,717)**	**12,691**	**(8,156)**	**1,430,251**

22. Trade and other payables

Details of trade and other payables at 31 December are as follows:

	Thousands of Euros Current 31.12.2018	Thousands of Euros Current 31.12.2017
Related parties (note 34)		
Payables	1,726	-
Unrelated parties		
Suppliers	2,638	3,845
Payables	45,533	47,279
Suppliers of fixed assets	4,443	7,414
Personnel	629	1,329
Total	**54,969**	**59,867**

The fair values of trade and other receivables do not differ significantly from their carrying amounts.

Unrelated parties includes Euros 34,813 thousand for gas sector inter-company settlements, reflecting the estimate at 31 December 2018 (Euros 37,415 in 2017), which, based on authorised costs for the distribution activity, are allocated to the Group in the corresponding settlement period to adjust the settlements to the remuneration calculated by the Ministry of Energy, Tourism and the Digital Agenda, pursuant to the legislation applicable to the gas sector.

The Group has estimated its settlement for 2018 based on a comparison between the sales made in each year, less other related costs, and the Company's accrued authorised costs at 31 December 2018, calculated based on the distribution of total authorised fixed remuneration for 2018, distributed proportionally.

23. Late payments to suppliers. "Reporting Requirement". Third additional provision of Law 15/2010 of 5 July 2010

Information on late payments to suppliers in the year ended 31 December 2018 and the eight-month period ended 31 December 2017, made by consolidated Spanish companies, is as follows:

	Days	
	31.12.2018	**31.12.2017**
Average supplier payment period	28,53	24.18
Transactions paid ratio	30,63	35.86
Transactions payable ratio	13,59	2.03

	Amount in Euros	
	31.12.2018	**31.12.2017**
Total payments made	62,254,840	17,643,281
Total payments outstanding	8,719,240	9,303,173

24. Risk management policy

Financial risk factors

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

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

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

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

(i) Interest rate risk

As the Group does not have a considerable amount of remunerated assets, income and cash flows from operating activities are not significantly affected by fluctuations in market interest rates.

Interest rate risk arises from non-current borrowings. Fixed interest loans expose the Company to fair value interest rate risks.

(ii) Credit risk

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

The accompanying table shows an age analysis of financial assets at 31 December 2018 and 2017:

	31.12.2018				
	Thousands of Euros				
	Less than 3 months	More than 3 months and less than 6 months	More than 6 months and less than 1 year	More than 1 year	Total
Trade and other receivables at fixed rate	19,682	37	66	-	19,785
Other financial assets	485	37,113	67	-	37,665
Total assets	20,167	37,150	133	-	57,450

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

At 31 December 2017, the amount recorded in More than 1 year included an amount of Euros 7 million relating to the measurement differences generated by the system and an amount of Euros 1.4 million relating to the current deficit.

(iii) Liquidity risk

At 31 December 2018, the Group has positive working capital of Euros 135,206 thousand (Euros 140,349 thousand in 2017). The Group generates sufficient cash on an annual basis to meet its requirements.

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

The table below shows the Group's exposure to liquidity risk at 31 December 2018 and 2017. The tables below reflect the analysis of financial liabilities by contracted maturity.

	31.12.2018				
	Thousands of Euros				
	Less than 3 months	More than 3 months and less than 6 months	More than 6 months and less than 1 year	More than 1 year	Total
Bank borrowings					
Variable rate					
Principal	1,642	-	-	-	1,642
Interest	50	-	-	-	50
Trade and other payables	46,845	7,773	351	-	54,969
Liabilities from the issue of bonds and other marketable securities					
Principal	-	-	-	1,292,309	1,292,309
Interest	-	-	5,345	-	5,345
Total liabilities	48,537	7,773	5,696	1,292,309	1,354,315

	31.12.2017				
	Thousands of Euros				
	Less than 3 months	More than 3 months and less than 6 months	More than 6 months and less than 1 year	More than 1 year	Total
Bank borrowings					
Variable rate					
Principal					
Interest	50	-	-	-	50
Trade and other payables	8,433	14,109	37,325	-	59,867
Liabilities from the issue of bonds and other marketable securities					
Principal	-	-	-	1,291,899	1,291,899
Interest	-	-	5,419	-	5,419
Total liabilities	8,483	14,109	42,744	1,291,899	1,357,235

25. Provisions

The classification of current and non-current provisions is as follows:

	Thousands of Euros	
	Non-current	
	31.12.2018	31.12.2017
Provision for voluntary redundancy costs	2,934	3,587
Other personnel provisions	330	330
Other liabilities	2,222	12
Total	**5,486**	**3,929**

Movement in provisions for the year ended 31 December 2018 and the eight-month period ended 31 December 2017 is as follows:

	Thousands of Euros			
	Voluntary redundancy costs (note 32)	Other personnel provisions	Other liabilities	Total
At 31 December 2017	3,587	330	12	3,929
Charges	900	-	2,222	3,122
Reversals	-	-	(5)	(5)
Use	(1,553)	-	(7)	(1,560)
At 31 December 2018	2,934	330	2,222	5,486

	Thousands of Euros			
	Voluntary redundancy costs (note 32)	Other personnel provisions	Other liabilities	Total
At 31 March and 30 April 2017	-	-	-	-
Additions from business combinations (note 4)	-	330	8	338
Charges	3,587	-	12	3,599
Reversals	-	-	(8)	(8)
At 31 December 2017	3,587	330	12	3,929

Commitments with personnel

The provision mainly relates to the liability registered to cover the voluntary redundancy commitment agreed with several employees at 31 December 2018 for a total amount of Euros 2.9 million (Euros 3.6 million in 2017). Based on this commitment, a voluntary redundancy plan has been agreed with employees which is expected to be put into action during 2019.

Other liabilities

The provision covers the potential outcomes of litigious processes relating to the Group. According to the Directors, following the relevant legal advice given, the outcome of such processes is not expected to differ significantly from provisions made at 31 December 2018.

Contingent liabilities

As per publicly available information, the CNMC issued decisions in February 2018 and May 2018, which related to the CNMC requiring the Company and NED España Distribución Gas, S.A.U. to take necessary measures in order to comply with the conditions imposed in the explanatory plan presented by the company to remain capitalised, according to reasonable leverage and net debt/EBITDA ratios, in accordance with the usual rango for companies in the natural gas distribution sector and based on the values submitted by previous shareholder to the CNMC in April 2017. Theses CNMC decisions have been challenged by the Group at Spanish High Court.

The Group is working on how to agree and implement the appropriate measures to meet the CNMC requirements.

The Group's directors and, where appropriate, their advisers, believe that no other significant liabilities will arise for the Group.

Guarantees

The total amount of guarantees extended to third parties (councils and other public entities) at 31 December 2018 amounts to Euros 5,561 thousand (Euros 6,356 thousand in 2017), whilst guarantees received from suppliers amount to Euros 4,374 thousand (Euros 3,189 thousand in 2017).

The guarantees made to city councils and other public entities are for occupying and guaranteeing to replace public assets affected by the construction of pipelines and supply networks. No losses are expected in relation to these guarantees.

26. Environmental information

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

Natural gas contributes to improving the environment as it reduces the emission of greenhouse gases (90% methane) as it generates less CO_2 during combustion. Natural gas is one of the least contaminating fossil fuels, as it contains practically no sulphur.

Throughout 2018, work has continued on the environmental monitoring of gas distribution works, including regular visits. Furthermore, in accordance with the environmental procedures of the integrated management system, noise levels are measured at the distribution facilities, the location of which makes them susceptible to exceeding the permitted limits. In 2018, measurements were taken at 11 facilities and all the results fell within the ranges set out in current legislation.

To comply with the Environmental Liability Law, an analysis of appropriate environmental risks has been carried out at the affected facilities and a disclosure statement has been filed with the relevant government bodies.

The Group received no environmental grants or income from activities related to the environment in the year ended 31 December 2018.

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

27. Capital grants

Movement in deferred income is as follows:

	Thousands of Euros
	31.12.2018
Opening balance	-
Additions	339
Amounts transferred to the income statement	(4)
Closing balance	**335**

28. Contract liabilities

Movement in contract liabilities is as follows:

	Thousands of Euros	
	31.12.2018	31.12.2017
Opening balance	1,242	-
Additions	3,646	1,175
Amounts transferred to the income statement	(12)	(15)
Other movements	46	82
Closing balance	**4,922**	**1,242**

Other deferred income includes connection and extension activities.

29. Other current liabilities

Details of other current liabilities are as follows:

	Thousands of Euros	
	31.12.2018	31.12.2017
Other payables	-	12,465
Public entities, other		
VAT payable to tax authorities	-	238
Withholdings payable to tax authorities	1,570	1,549
Social Security contributions payable	225	348
Public charges, taxes and councils	4,147	3,201
Total	**5,942**	**17,801**

At 31 December 2017, Other payables mainly corresponded to the debt with EDP Iberia amounting to Euros 10,710 thousand, as parent of the VAT group in prior years, on account of VAT receivable from Redexis Gas, SA. for the same amount, which was recorded on this date in the caption Other receivables on the accompanying balance sheet corresponding to the sale of gas networks in 2015. During 2018 this amount was received from Redexis Gas, S.A. and paid to EDP Iberia.

The caption Public charges, taxes and councils includes the amount corresponding to the fees for subsoil use.

30. Revenue and supplies

Details of revenue by category, are as follows:

	Thousands of Euros	
	Domestic	
	2018	2017
Revenue from the sale of propane gas	27,214	9,148
Revenue from regulated activities	179,916	69,431
Revenue from services rendered and other	22,557	12,738
	229,687	**91,317**

Regulated activity revenue mainly relates to the amount accrued for regulated remuneration to gas distributors.

Details of supplies are as follows:

	Thousands of Euros	
	2018	2017
Merchandise used		
Purchases	17,036	6,335
Change in inventories	882	(964)
	17,918	5,371
Other purchases and external expenses		
Subcontracted work	2,895	1,788
Other	917	273
	3,812	2,061
	21,730	**7,432**

Subcontracted work at 31 December 2018 and 2017 relates mainly to the periodic inspections outsourced to third parties.

Other revenue relates to an amount of Euros 3,985 thousand recognised in 2018 based on the agreement signed by Nortegas Energía Distribución, S.A.U with EDP Iberia whereby compensation in the event of changes in the regulations affecting the remuneration of gas meter rentals is guaranteed (see note 15).

An amount of Euros 4,923 thousand is also included, which relates to revenue recognised based on the agreement signed with EDP Iberia whereby the Group company NED Suministro GLP, S.A.U. is guaranteed a minimum gross margin per supply point acquired from Repsol Butano, S.A. prior to 31 December 2016 (see note 15).

31. Other expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2018	**2017**
Operating lease expenses (note 10)	1,739	850
Repairs and maintenance	3,752	2,371
Independent professional services	2,324	2,471
Services rendered to Group companies (note 34)	6,856	-
Insurance premiums	590	184
Utilities	228	88
Other services	10,753	4,323
Taxes	5,709	1,835
Other expenses	3,522	154
	35,473	**12,276**

32. Personnel expenses

Details of personnel expenses are as follows:

	Thousands of Euros	
	2018	**2017**
Salaries and wages	12,168	7,265
Other employee benefit expenses and taxes	3,184	1,666
Charges to personnel provisions (note 25)	900	3,587
Contributions to other long-term benefits	511	289
	16,763	**12,807**

33. Financial Income and expenses

Details of income and expense are as follows:

	Thousands of Euros	
	2018	**2017**
Finance income on loans to Group companies (notes 11 and 34)	254	-
Finance income (see note 11)	103	230
Interest expense on debts, Group companies (notes 18 and 34)	(6,277)	(2,695)
Interest expense on debts, Banks (note 18)	(332)	(1,596)
Interest expense on debts, bond issuance (note 18)	(20,462)	(5,419)
Other finance costs (note 18)	(1,541)	(348)
Finance cost, changes in value of derivatives (see note 11)	-	(2,633)
Net finance cost	**(28,255)**	**(12,461)**

34. Related parties balances and transactions

Details of balances receivable from and payable to related parties by category and the main characteristics are chiefly disclosed in notes 9, 11, 14, 20 and 22.

Details of balances by category at 31 December 2018 and 2017 are as follows:

	Thousands of Euros			
31.12.2018	**Sole Shareholder**	**Group companies**	**Associates**	**Total**
Non-current investments in Group companies and associates				
Equity-accounted investees (note 9)	-	-	745	**745**
Total non-current assets	-	-	745	**745**
Current investments in Group companies and associates				
Loans to companies (note 11)	37,280	-	-	**37,280**
Trade and other receivables				
Other receivables (note 14)	1,067	-	27	**1,094**
Total current assets	38,347	-	27	**38,374**
Total assets	38,347	-	772	**39,119**
Current payables				
Other financial liabilities (note 20)	3,211	3,076	454	**6,741**
Payables, Group companies and associates (note 22)	1,726	-	-	**1,726**
Total current liabilities	4,937	3,076	454	**8,467**
Total liabilities	4,937	3,076	454	**8,467**

	Thousands of Euros			
31.12.2017	**Sole Shareholder**	**Group companies**	**Associates**	**Total**
Non-current investments in Group companies and associates				
Equity-accounted investees (note 9)	-	-	666	**666**
Total non-current assets	-	-	666	**666**
Current investments in Group companies and associates				
Loans to companies	13	-	-	**13**
Trade and other receivables				
Other receivables (note 14)	-	-	26	**26**
Total current assets	13	-	26	**39**
Total assets	13	-	692	**705**
Non-current payables to Group companies and associates (note 20)	-	127,303	-	**127,303**
Total non-current liabilities	-	127,303	-	**127,303**
Current payables				
Other financial liabilities	-	-	386	**386**
Current payables to Group companies and associates (note 20)	-	2,794	-	**2,794**
Total current liabilities	-	2,794	386	**3,180**
Total liabilities	-	130,097	386	**130,483**

Group transactions with related parties

Group transactions with related parties at 31 December 2018 and 2017 are as follows:

	Thousands of Euros			
31.12.2018	**Sole Shareholder**	**Group companies**	**Associates**	**Total**
Revenue				
Other services rendered	-	-	291	**291**
Other operating income	66	-	-	**66**
Financial instruments				
Finance income (note 33)	254	-	-	**254**
Equity-accounted investees (note 9)	-	-	191	**191**
Total income	320	-	482	**802**
Expenses				
Other expenses (note 31)	6,856	-	-	**6,856**
Financial instruments				
Finance costs (note 33)	-	6,277	-	**6,277**
Total expenses	6,856	6,277	-	**13,133**

	Thousands of Euros			
31.12.2017	**Sole Shareholder**	**Group companies**	**Associates**	**Total**
Revenue				
Other services rendered	-	-	123	**123**
Total income	-	-	123	**123**
Expenses				
Financial instruments				
Finance cost	-	2,695	-	**2,695**
Total expenses	-	2,695	-	**2,695**

Finance costs relate to interest accrued on the loan signed during the eight-month period ended 31 December 2017 with the Group company Nature Investments S.à.r.l. (see note 20).

Information on the Parent's directors and the Group's senior management personnel

In the year ended 31 December 2018, the Directors and the members of the Company's senior management, have received remuneration amounting to Euros 642 thousand and Euros 1,063 thousand, respectively (Euros 301 thousand and Euros 176 thousand, respectively, in the eight-month period ended 31 December 2017). Furthermore, members of senior management have an outstanding repayable amount on loans of Euros 26 thousand (Euros 18 thousand in 2017). The Company has reviewed in 2018 the definition of senior management personnel, thus 2017 mentioned data are not directly comparable with those of 2018. The Company has no pension or life insurance obligations with its former or current Directors.

The civil liability insurance premium for the year for the position of director amounted to Euros 25 thousand in 2018 (Euros 24 thousand in 2017).

Transactions other than ordinary business or under terms differing from market conditions carried out by the Directors and members of the Supervisory Board of the Parent company

In the year ended 31 December 2018, the Directors of the Company have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Company of any other Group company.

Conflicts of interest concerning the Directors of the Parent company

The directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act, with the exception of Mr. Conrado Navarro, who holds 3,000 shares of Enagas S.A. without holding any position in the Company.

35. Employee information

The average number of Group employees for the year ended 31 December 2018 and the eight-month period ended 31 December 2017, distributed by category, is as follows:

	Average number of employees	
	31.12.2018	**31.12.2017**
Directors	10	15
Managers	34	15
Other	143	213
	187	**243**

At 31 December 2018, the Group has one employee with a disability rating of 33% or higher (or equivalent local rating) (two at 31 December 2017).

Royal Legislative Decree 1/2013 of 29 November, which approves the revised General Act on the rights of persons with disabilities and their social inclusion, requires that public and private companies employing 50 or more staff must reserve at least 2% of their jobs for persons with disabilities.

Since the Company has not met this condition, it has applied a series of alternative measures established by Royal Decree 364/2005 of 8 April, which governs such exceptions. The alternative measures available to companies failing to reserve the required 2% of its posts for persons with disabilities largely consist of maintaining service contracts with at least two suppliers that are certified as "special centres".

At 31 December 2018 and 2017 the distribution by gender of Company personnel and the directors is as follows:

	Number			
	2018		2017	
	Female	Male	Female	Male
Board members	-	3	1	12
Directors	-	7	4	11
Managers	9	18	6	9
Other	29	98	83	130
	38	**126**	**94**	**162**

36. Audit fees

KPMG Auditores, S.L., the auditor of the Group's annual accounts, and other affiliates of KPMG International invoiced the following fees for professional services during the year ended 31 December 2018 and the eight-month period ended 31 December 2017:

	Thousands of Euros	
	31.12.2018	31.12.2017
Audit services, consolidated annual accounts	54	74
Audit services, individual annual accounts for the Company	41	57
Audit services, annual accounts for subsidiaries	59	78
Other services	-	159
	154	**368**

In the year ended 31 December 2018, other firms affiliated with KPMG International invoiced the Group for professional service fees totalling Euros 545 thousand (Euros 15 thousand in the eight-month period ended 31 December 2017).

37. Events after the reporting period

On 12 March 2019, the Sole shareholder decided to make a contribution in the amount of Euros 163 million and to repay the loan granted in the amount of Euros 37 million (Note 24) in order to comply with the CNMC requirements of the explanatory plan required in its resolutions of February and May 2018 (Note 25).

After this transaction, on 21 March 2019 the CNMC communicated through a resolution approved by the Regulatory Supervision Chamber, that the requirements of the explanatory plan detailed in Note 25 have been met.

No other significant event of note that could have an effect on the accompanying consolidated annual accounts and which is not disclosed herein has taken place after the year ended 31 December 2018.

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

Details of subsidiaries

31 December 2018

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

Name	Registered address	Activity	Auditor	Company holding investment	% ownership	% of voting rights	Basis of consolidation
NED España Distribución Gas, S.A.U.	Oviedo (Asturias)	Natural gas distribution	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U.	100%	100%	Fully consolidated
NED Suministro GLP, S.A.U.	Bilbao (Vizcaya)	Distribution and sale of liquefied petroleum gas	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U.	100%	100%	Fully consolidated
Tolosa Gasa, S.A.	Tolosa (Guipuzkoa)	Natural gas distribution	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U.	40.00%	40.00%	Equity method
Inkolan, A.I.E.	Bilbao (Vizcaya)	Compilation and management of all information relating to the networks installed by each partner in the Basque Country.	Moore Stephens AMS, S.L.	Nortegas Energía Distribución, S.A.U.	14.29%	14.29%	Equity method

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

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

Details of subsidiaries

31 December 2017

Name	Registered address	Activity	Auditor	Company holding investment	% ownership	% of voting rights	Basis of consolidation
NED España Distribución Gas, S.A.U.	Oviedo (Asturias)	Natural gas distribution	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U.	100%	100%	Fully consolidated
NED Suministro GLP, S.A.U.	Bilbao (Vizcaya)	Distribution and sale of liquefied petroleum gas	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U.	100%	100%	Fully consolidated
Tolosa Gasa, S.A.	Tolosa (Guipuzkoa)	Natural gas distribution	KPMG Auditores, S.L.	Nortegas Energía Distribución, S.A.U.	40.00%	40.00%	Equity method
Inkolan, A.I.E.	Bilbao (Vizcaya)	Compilation and management of all information relating to the networks installed by each partner in the Basque Country.	Moore Stephens AMS, S.L.	Nortegas Energía Distribución, S.A.U.	14.29%	14.29%	Equity method

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

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

Consolidated Directors' Report

31 December 2018

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

1. Most significant milestones in 2018

After the corporate reorganisation and the supply of the necessary financing to the Company, 2018 is the first year after the acquisition of Nortegas Energía Distribución S.A.U. by the new shareholders.

It has been a challenging year in which Nortegas (the Group) has been able to quickly adapt to the new structure and meet the development and growth targets set for 2018 in all of its business areas.

The Group redefined its strategy for 2018 and therefore it has established a new Growth Plan and operating improvements through the implementation of a Transformation Plan and the Value Attainment initiatives identified in 2017. Advances have also been made in 2018 to attain a “Stand Alone” company that is independent from a systems and Corporate Governance standpoint.

As a result, Nortegas is the second largest gas distributor in Spain and the primary distributor in the north of the country. It has more than one million supply points and 8,207 km of gas pipelines distributed throughout the Basque Country, Asturias and Cantabria. It employs 161 professionals at 31 December 2018 and its corporate headquarters is in Bilbao.

2. Operational data and milestones

Most of the activities carried out by Nortegas are regulated and at the end of 2018 it has more than 1 million natural gas and LPG supply points, is present in 383 municipalities, of which 227 are supplied with natural gas and the rest with LPG. The average penetration rate in Asturias, Cantabria and the Basque Country is 68%.

Operational data	2018	2017	2016	CAGR (2016-2018)(1)
Connection points	**1,025,525**	**1,016,530**	**1,008,181**	1%
Natural gas (NG)<4 bar	942,305	932,578	925,659	
Natural gas (NG)>4 bar	672	685	687	
LPG	82,548	83,267	81,835	
Energy distributed NG+LPG (GWh)	**31,710**	**29,728**	**27,109**	8%
Energy distributed (NG) (GWh)	31,287	29,339	27,037	
Energy distributed (LPG) (GWh)	423	389	72	
Network length (NG+LPG) (Km)	**8,207**	**8,194**	**8,101**	1%
Km NG	7,831	7,803	7,747	
Km LPG	376	391	354	

Note 1: Compound annual growth rate from 2016 to 2018

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

3. Analysis of 2018 results

The comparative of 2018 and 2017 proforma results is presented in the table below.

With regard to 2017, due to the reverse merger involving the takeover of the parent company of Nortegas (Nature Gasned XXI, S.L.U.) effective 27 July 2017 (note 1 in the accompanying notes to the consolidated accounts), the consolidated annual accounts for the eight-month period ended 31 December 2017 and the explanatory notes to the consolidated accounts only included the results obtained by Nortegas since that date.

In order to facilitate an understanding of the Group's 2017 results, the proforma financial information for the 12 months preceding 31 December 2017 is presented below.

Key financial measures (millions of Euros)	IFRS consolidated 2018	IFRS proforma consolidated 2017 - full year
Revenue	229.7	222.8
Supplies	-21.7	-18.8
Work carried out for the Group's own assets	6.5	5.9
Other income	9.5	12.4
Personnel expenses	-16.8	-22.9
Change in trade receivables and contract assets	-0.1	-0.6
Other expenses	-35.5	-29.7
EBITDA	**171.6**	**169.1**
Amortisation and depreciation (1)	-81.9	-92.9
Operating profit	**89.7**	**76.2**
Finance income	0.4	0.6
Finance cost	-28.6	-24.9
Profit/(loss) - equity method	0.2	0.2
Profit/(loss) before tax	**61.7**	**52.1**
Income tax (expense)/income (2)	33.5	-14.3
Profit/(loss) for the year	**95.2**	**37.8**

Note 1: In 2017, calculated as if the allocation of the price paid in the Nortegas acquisition and merger had taken place on 1 January 2017.

Note 2: In 2017, calculated by applying the tax rate applicable in the territory to the consolidated profit/(loss) before tax

The execution during 2018 of the Transformation Plan started in the previous year, the objective of which was to ensure the continuity of Nortegas and obtain maximum value through operating improvements, has meant that consolidated EBITDA (revenue before depreciation and amortisation) recognised by Nortegas in 2018 amounted to Euros 171.6 million, compared to the Euros 169.1 million in 2017 (proforma), which is a 1.5% increase.

The Group's revenues in 2018 totalled Euros 229.7 million compared to Euros 222.8 million in 2017 (proforma), reflecting 3% growth over the preceding year. This is due to both the growth in natural gas and

LPG and despite the regulatory changes that gave rise to a substantial reduction in revenues through the leasing of gas meters.

Finally, Nortegas and its subsidiaries obtained a profit of Euros 95 million in 2018.

Details by business segment of the investments made by Nortegas are broken down below, in line with the ordinary investments made in prior years. The acquisition of LPG supply points from Repsol in 2016 represented a large investment.

Investments (millions of Euros)	**Jan-Dec 2018**	**Jan-Dec 2017**	**Jan-Dec 2016**
Distribution	21.5	24.9	22.9
LPG [(1)]	0.7	0.5	116.3
TOTAL	**22.2**	**25.4**	**139.2**

Note 1: in September 2016, approximately 83,000 LPG supply points were acquired from Repsol

4. Most significant events in 2018

The Company has continued with its standard business as a regulated natural gas and LPG sector enterprise. This activity consists of the management of the regulated distribution assets, including promoting, developing and building new infrastructure, as well as network operation, maintenance and optimisation services.

The Group has continued with its network expansion in its areas of influence. Some of the key projects are indicated below:

- ✓ Official inauguration of the Arenas de Iguña LPG plant. This project makes possible the connection of 330 potential customers, as well as an industrial customer, with an initial projected consumption of 20 GWh/year.
- ✓ Completion of the work at the Aboño II Thermal Generation Plant in Asturias, which will now use natural gas for start-ups, with an annual estimated consumption of 16 GWh/year.
- ✓ Construction of an LNG plant in Labastida, with a storage capacity of 60 m3 and emissions of 750 Nm3/h.
- ✓ Construction of an LNG plant in Elciego, with a storage capacity of 20 m3 and emissions of 250 Nm3/h.
- ✓ Conversion of Labastida to natural gas after the LNG plant entered into service with a total investment of Euros 810 thousand.
- ✓ Conversion of Elciego to natural gas after the LNG plant entered into service with a total investment of Euros 450 thousand.
- ✓ Completion of the project to supply natural gas to the incinerator in Guipúzcoa after its launch at the beginning of September.
- ✓ Entry into service of the historic area of Laguardia after the conversion of the municipality to natural gas, involving the creation of 113 new supply points.

Other significant milestones were reached as well:

- ✓ Within the context of the gasification agreement with the Principality of Asturias, a concession has been approved including assistance totalling Euros 117 thousand for the gasification of the town of Grandas de Salime.
- ✓ Renewal of the OSHAS 18001:207 certification after completion of an external audit.
- ✓ Agreement with the San Sebastian city authorities to supply gas to the Eskuzaitzeta industrial estate, where 1,400 meters of distribution lines will be installed.
- ✓ Update of the Bizkaia Network Operating Plan (the previous version was from 2016).
- ✓ Renewal of ISO 14001 and 9001 certification, after AENOR performed an external audit.
- ✓ Investments were made to extend the natural gas distribution network to a total of 7,831 km at 31 December 2018, which represents a 9% share of the entire industry in Spain.
- ✓ Investments in new natural gas networks and the increase in the saturation of supply points in existing natural gas networks allowed the number of supply points to increase to 942,977. The networks distributed 31,287 GWh of energy.
- ✓ The LPG business at 31 December 2018 totalled 82,548 supply points and 376 km of LPG lines.

Operating profits amounted to Euros 89.7 million in 2018, after amortisation totalling Euros 81.9 million. Financial income/expense and other results, together with corporate income tax, gave rise to a net profit of Euros 95.1 million.

The regulatory scenario in 2018 included the following milestones:

- ✓ Approval of Order ETU/1283/2017 (22 December), which establishes the tolls and royalties associated with third party access to gas facilities and compensation for regulated activities in 2018.
- ✓ Publication of Royal Decree 335/2018 (25 May), which amends several Royal Decrees regulates the natural gas sector including, among other things, the structure of the tolls associated with the new services covered by Royal Decree 984/2015 and the establishment of the procedure for deactivating marketing companies. It also introduces amendments relating to the contracting of output capacity to final customers.
- ✓ Development of the basic organic structure of the Ministry for Ecological Transition, which has been joined by the State Secretary for Energy, through Royal Decree 864/2018 published on 14 July.
- ✓ Publication of Royal Decree-Law 15/2018 (5 October) on 6 October 2018 on urgent measures for energy transition and consumer protection which, among other things, creates an energy credit as an instrument associated with the fight against energy poverty.
- ✓ Receipt on 30 November of the final settlement for 2017, which shows a system deficit totalling Euros 24.8 million. The deficit charged to Nortegas Group companies totalled Euros 1.6 million.
- ✓ Publication, on 22 December, of Order ETU/1367/2018 (20 December), which establishes the tolls and royalties associated with third party access to gas facilities and compensation for regulated activities, correcting the estimated compensation for 2018 and establishing that for 2019.

The payment policy for Group suppliers establishes a payment period that falls within the limits established by law.

5. Treasury shares

At 31 December 2018 there are no treasury shares and none have been acquired during the year.

6. Financial instruments

At 31 December 2018 the Group does not have any financial instruments.

7. Risks

The Group has analysed the risks and uncertainties to which its business is subject, and the Board of Directors understands that the identified risks do not require any urgent or immediate additional or specific actions to be adopted beyond the mitigation measures already in existence that have been evaluated by an external expert.

In 2018 the Company defined its strategic positioning with regards the various risk categories, as well as the tolerance thresholds that allow it to measure its actual exposure to uncertainty and their development.

Note 24 of the notes to the accompanying consolidated accounts describes these policies and risk management measures.

8. Research and development activity

At the WORLD GAS CONFERENCE 2018, held in Washington DC (USA), Nortegas was given the “IGU Innovation Award” in the Gas & Renewables category, which is an important milestone.

During the period the Group has continued with its efforts to develop strategic research projects that are aligned with its priority research and development activities backed by the European gas industry, among which the following are notable:

- ✓ European HYGRID Project: “Flexible Hybrid separation system for H2 recovery from Natural Gas Grids”, financed by the EU H2020 programme.
- ✓ CIEN SMART GREEN GAS Project: completion of the biogas upgrading prototype and development of testing at the Lapatx (Azpeitia) landfill site, as well as the intelligent biogas injection prototype and the injection tests, carried out at the Santurtzi regulation and metering station.
- ✓ SINATRAH Project - Development of advanced solutions for the transport and use of hydrogen, a project subsidised by the Basque Government’s HAZITEK programme in collaboration with TECNALIA and SIEMENS ENGINES.
- ✓ DINEGAS Project- Intelligent device for natural gas energy evaluation, a project subsidised by the Basque Government’s HAZITEK programme in collaboration with CEIT IK4 and IOT WATER.
- ✓ NGV Innovation project: installation of provisional refuelling equipment for the testing of compressed natural gas fleets. Equipment installed at the Ertzaintza complex in Erandio; management of the three-party agreement between the Basque Government and SEAT, involving the assignment of vehicles and CNG refuelling.

Similarly, an active presence has been maintained in leading edge innovation forums in which Nortegas participates:

- ✓ European Gas Research Group (GERG): Meeting of the Board & Plenary in Bilbao, acting as the hosts, and in Brussels (Belgium).
- ✓ IGU Utilization Committee, held in Barcelona.

- ✓ Alternative Energy Cooperative Investigation Centre Foundation “CIC energiGUNE”: Member of the Board of Trustees.

- ✓ Meetings of the BIOGAS working Group within the SEDIGAS context regarding the injection of bio-methane into gas networks, as part of the Technology and Training Committee within the PROGAS Committee.

- ✓ AULA DE NORTEGAS: final presentation of the five projects carried out at the Engineering School in Bilbao in 2017-2018 and the development of four new projects for 2018-2019.

- ✓ Taking part in the Master’s Degree in Sustainable Energy Engineering at the Engineering School in Bilbao during the 2018/19 academic year. Teaching of the Natural Gas Markets course.

- ✓ World Gas Conference: participation and receipt of the “IGU Innovation Award”.

- ✓ Entry into the CIC Venture Café Biscay Start Up Bay.

- ✓ Signing of a confidentiality agreement with ENAGAS regarding the exchange of information relating to the feasibility of non-electric, biogas/bio-methane and hydrogen renewable energy projects.

9. Future development

The Company’s future development is based on the following pillars:

- ✓ Continue investing in the construction of new distribution networks in new population centres and the extension of current distribution networks to saturate the zones of influence. To do so, in 2018 an ambitious Expansion Plan has been defined as a road map to be followed in the coming years.

- ✓ Continue with the ongoing improvement of supply quality and safety. Achieve an extremely efficient and highly responsible operating system, reflecting excellent operations, inspections and maintenance.

- ✓ Anticipate risks and efficiently manage regulatory requirements, which are essential given the nature of the business.

- ✓ Develop increasingly more demanding health, safety and environmental standards.

- ✓ Continue developing LPG activities throughout the entire network, maximising asset value and customer relationships.

- ✓ Continue investing in R&D+I to guarantee a sustainable future for the company in the long-term.

10. Events after the reporting period

On 12 March 2019, the Sole shareholder decided to make a contribution in the amount of Euros 163 million and to repay the loan granted in the amount of Euros 37 million (Note 24) in order to comply with the CNMC requirements of the explanatory plan required in its resolutions of February and May 2018 (Note 25).

After this transaction, on 21 March 2019 the CNMC communicated through a resolution approved by the Regulatory Supervision Chamber, that the requirements of the explanatory plan detailed in Note 25 have been met.

Since the 31 December 2018, no significant additional events have taken place that should be disclosed other than those mentioned in note 37.

AUTHORISATION FOR ISSUE OF THE ANNUAL ACCOUNTS

2018

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

Signed·on·original¶ in·Spanish¶	*Signed·on·original¶ in·Spanish¶*	*Signed·on·original¶ in·Spanish¶*
Mr Conrado Navarro (Chairman)	Nortegas Energia Grupo, S.L.U., represented by Mark William Mathieson	Mr Juan Ramón Arraibi