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

Consolidated Annual Accounts
31 December 2020

Consolidated Directors' Report
2020

(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 "Parent") and subsidiaries (together the "Group"), which comprise the consolidated balance sheet at 31 December 2020, 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 2020 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.

On the Spanish Official Register of Auditors with number S0702, and the Spanish Institute of Registered Auditors' list of companies with reference No. 10.
Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9
N.I.F. B-78510153

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, 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 procedures included assessing the design and implementation of the key controls relating to the process of determining the value in use of CGUs, assessing the reasonableness of the methodology used to calculate value in use and the main assumptions considered, with the involvement of our specialists, analysing the consistency of the estimated growth in future cash flows with the 2021 budget and the business plans approved by the governing bodies, comparing cash flow forecasts estimated in prior years with the actual cash flows obtained, assessing the sensitivity of certain assumptions to changes that are considered reasonable, and verifying compliance with the disclosure requirements established in 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 design and implementation of the Group's key controls related to the process of capitalisation and acquisition of assets, the analysis and documentary support of a statistically selected sample of additions for the period and assessing the accuracy of their accounting recognition, assessing whether the commencement date of the depreciation 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. In addition, we assessed whether the disclosures included in the annual accounts meet the requirements of the financial reporting framework applicable to the Group.

Other information: Consolidated Directors' Report

Other information solely comprises the 2020 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 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 2020 and the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit Committee's 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.

The Parent's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

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.
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- 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 audit committee 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.

We also provide the Parent's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the significant risks communicated to the audit committee 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

18 March 2021

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

Consolidated balance sheet
at 31 December 2020 and 2019

(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 2020**	**31 December 2019**
Property, plant and equipment	7	971,590	1,000,698
Goodwill	8	45,910	45,910
Other intangible assets	8	1,449,320	1,475,927
Right-of-use assets	10	2,151	3,594
Equity-accounted investees	9	822	778
Other financial assets	11 & 12	585	585
Deferred tax assets	13	9,025	14,215
Total non-current assets		**2,479,403**	**2,541,707**
Inventories	3 (k)	3,399	3,913
Trade and other receivables	11, 12 & 14	16,550	19,261
Other financial assets	11 & 12	1,441	98
Other current assets	15	1,140	1,584
Cash and cash equivalents	16	126,960	366,919
Total current assets		**149,490**	**391,775**
Total assets		**2,628,893**	**2,933,482**

Equity and Liabilities	**Note**	**31 December 2020**	**31 December 2019**
Capital	17	100,000	100,000
Share premium	17	391,130	552,080
Reserves	17	71,942	15,367
Other shareholder contributions	17	528,144	528,144
Profit/(loss) for the year	17	41,127	56,575
Total equity		**1,132,343**	**1,252,166**
Capital grants	27	565	449
Contract liabilities	28	11,327	8,152
Provisions for liabilities and charges	25	622	230
Liabilities from the issue of bonds and other marketable securities	18, 19 & 21	1,120,835	1,293,640
Leases	18, 19 & 20	1,615	2,680
Other financial liabilities	18, 19 & 20	2,284	2,560
Deferred tax liabilities	13	276,936	284,645
Total non-current liabilities		**1,414,184**	**1,592,356**
Liabilities from the issue of bonds and other marketable securities	18, 19 & 21	4,405	5,345
Bank borrowings	18, 19 & 20	49	50
Other financial liabilities	18, 19 & 20	1,147	4,967
Leases	18.19 & 20	643	983
Trade and other payables	18, 19 & 22	60,658	60,886
Income tax liabilities	13	9,765	9,293
Other current liabilities	29	5,699	7,436
Total current liabilities		**82,366**	**88,960**
Total equity and liabilities		**2,628,893**	**2,933,482**

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 years ended 31 December 2020 and 2019

(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 2020	31 December 2019
Ordinary revenue	30	216,428	222,672
Other operating income	30	11,358	13,732
Work carried out for the Group's own assets		6,998	7,005
Supplies	30	(16,638)	(18,421)
Personnel expenses	32	(14,362)	(12,323)
Change in trade receivables and contract assets		(45)	364
Other expenses	31	(29,602)	(35,522)
Operating profit before depreciation/amortisation		**174,137**	**177,507**
Amortisation and depreciation	7, 8 & 10	(84,309)	(83,346)
Operating profit		**89,828**	**94,161**
Finance income	33	73	224
Finance cost	33	(37,539)	(22,545)
Share in profit for the period from investments accounted for using the equity method	9	156	158
Profit/ (loss) before tax from continuing operations		**52,518**	**71,998**
Income tax (expense)/income	13	(11,391)	(15,423)
Profit/ (loss) for the period from continuing operations		**41,127**	**56,575**
Profit/(loss) for the period		**41,127**	**56,575**
Comprehensive income for the period		**41,127**	**56,575**

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 years ended
31 December 2020 and 2019

(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**	**Reserve for merger**	**Legal reserve**	**Other reserves**	**Profit/(loss) for the period**	**Other shareholder contributions**	**Total equity**
Balance at 31 December 2018	**100,000**	**701,290**	**(91,773)**	**75**	**11,913**	**95,152**	**324,244**	**1,140,901**
Comprehensive income for the period	-	-	-	-	-	56,575	-	56,575
Distribution of profit/(loss)	-	-	-	8,145	87,007	(95,152)	-	-
Distribution of share premium	-	(149,210)	-	-	-	-	-	(149,210)
Shareholder contributions (note 17)	-	-	-	-	-	-	203,900	203,900
Balance at 31 December 2019	**100,000**	**552,080**	**(91,773)**	**8,220**	**98,920**	**56,575**	**528,144**	**1,252,166**
Comprehensive income for the period	-	-	-	-	-	41,127	-	41,127
Distribution of profit/(loss)	-	-	-	3,478	53,097	(56,575)	-	-
Distribution of share premium	-	(160,950)	-	-	-	-	-	(160,950)
Balance at 31 December 2020	**100,000**	**391,130**	**(91,773)**	**11,698**	**152,017**	**41,127**	**528,144**	**1,132,343**

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 years ended
31 December 2020 and 2019

(Expressed in thousands of Euros)

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

	Note	31.12.2020	31.12.2019
Cash flows from operating activities			
Profit/(loss) for the period before tax		**52,518**	**71,998**
Adjustments for		**122,184**	**101,310**
Amortisation and depreciation	**Notes 7, 8 & 10**	84,309	83,346
Impairment allowances		45	(364)
Change in provisions	**Note 25**	392	(3,649)
Grants recognised in the income statement		(247)	(144)
Proceeds from disposals of fixed assets		375	(42)
Finance income		(73)	(224)
Finance cost		37,539	22,545
Share of profit of equity-accounted investees		(156)	(158)
Changes in operating assets and liabilities		**2,480**	**11,956**
Inventories		514	432
Trade and other receivables		2,718	2,978
Other current assets		444	2,191
Other current liabilities		(1,737)	1,494
Trade and other payables		541	4,861
Other cash flows from operating activities		**(38,065)**	**(43,580)**
Interest paid		(20,410)	(24,140)
Dividends received		112	124
Interest received		65	470
Other amounts received/(paid)		-	(1,607)
Income tax paid		(17,832)	(18,427)
Cash flows from operating activities		**139,117**	**141,684**
Cash flows from/(used in) investing activities			
Payments for investments		**(105,976)**	**(25,194)**
Intangible assets	**Note 8**	(2,250)	(2,786)
Property, plant and equipment		(26,726)	(22,408)
Other financial assets		(77,000)	-
Proceeds from sale of investments		**76,043**	**37,274**
Property, plant and equipment		43	274
Other financial assets		76,000	37,000
Cash flows from/(used in) investing activities		**(29,933)**	**12,080**
Cash flows from/(used in) financing activities			
Proceeds from and payments for equity instruments		**-**	**203,900**
Other shareholder contributions		-	203,900
Proceeds from and payments for financial liability instruments		**(188,193)**	**1,397**
Issue		44,075	4,117
Issuance and disposal of debt		40,500	-
Capital grants and other	**Notes 27 & 28**	3,546	3,515
Other		29	602
Redemption and repayment of		(232,268)	(2,720)
Repayment of debt		(231,390)	(1,749)
Leases		(878)	(971)
Dividends and interest on other equity instruments paid		**(160,950)**	**(149,210)**
Distribution of share premium	**Note 17**	(160,950)	(149,210)
Cash flows from/(used in) financing activities		**(349,143)**	**56,087**
Net increase/decrease in cash and cash equivalents		(239,959)	209,851
Cash and cash equivalents at start of period		366,919	157,068
Cash and cash equivalents at period end		**126,960**	**366,919**

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 economical-financial conditions or special training requirements, the Company would do so before carrying out its activity.

At 31 December 2020, 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.

On 1 December 2017, once the authorizations were received by the corresponding bodies, the Nature Gasned XXI S.L.U. and Nortegas Energía Distribución, S.A.U. they granted the merger deed, by virtue of which such companies were merged. The merger was duly registered in the Mercantile Registry. For accounting purposes, the Merger was considered a reverse acquisition for which Nature Gasned XXI, S.L.U. became the acquirer for accounting purposes (legal acquiree) and Nortegas Energía Distribución, S.A.U. in the acquired for accounting purposes (legal acquirer).

The Sole Shareholder of the Company is Nortegas Energía Grupo, S.L.U. with which the Company has the character of sole proprietorship and as such is registered in the Mercantile Registry.

Regulatory framework

Details of the basic regulatory framework for the industry applicable to the Group at 31 December 2020 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

In accordance with the above framework, the following principles are established:

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 and Demographic Challenge 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 TEC/1259/2019, stipulating the tolls and charges for third-party access to gas facilities from 1 January 2020 onwards, among other things, was published on 28 December 2019.

Royal Decree 1434/2002 of 27 December 2002, implementing the Hydrocarbon Industry 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 for the regulatory period July 2014 to December 2020, although the annual revision of remuneration will continue to be determined by reference to the variation in demand.

The abovementioned Order TEC/1259/2019, in addition to the tolls and charges, definitively revises gas distribution remuneration for 2018 and Order TED/1286/2020 revises the definitive 2019 remuneration. The Resolution of the Spanish National Markets and Competition Commission (CNMC) of 18 December establishes the regulated fee for natural gas distributors for 2020, following the enactment of Royal Decree-Law 1/2019.

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.

In January 2019, Royal Decree-Law 1/2019 of 11 January was published on urgent measures to adapt the powers of the Spanish National Markets and Competition Commission (CNMC) to the requirements arising from Community law, which stipulates that the regulators of domestic natural gas and electricity markets be fully independent. Specifically, the regulation redistributes competences, whereby the CNMC is assigned, with regards the gas sector, the approval of the structure, methodology and the specific toll values granting access to the transmission and distribution networks, and to liquefied natural gas plants. Similarly, the Commission will approve the methodology and compensation values for gas transmission and distribution activities and liquefied natural gas plants. It will also be in charge of gas system technical manager compensation. Likewise, it shall be responsible for the methodology and conditions for access and connection to the natural gas transmission and distribution networks. These powers will be enacted through the issuing of Circulars and Resolutions.

Within the scope of its new regulatory powers, when preparing these Circulars using the remuneration methodology for regulated activities and the toll and charge for access to gas facility calculation, the CNMC must take into account the strategic priorities set out by the Government, which are approved by Order TEC/406/2019 of 5 April, establishing the energy policy guidelines for the Spanish National Markets and Competition Commission when preparing Circulars and which cover issues such as supply security, the economic and financial sustainability of the gas system, the fight against climate change, etc.

With regard to compensation, the Royal Decree-Law stipulates that the CNMC must approve, before 1 January 2020, the Circular containing the methodology for calculating compensation for natural gas distribution for the 2021-2026 regulatory period. Circular 4/2020 by the National Markets and Competition Commission, establishing the remuneration methodology for natural gas distribution was published in the Official State Gazette (BOE) on 3 April 2020. The approved methodology is in line with the remuneration framework in force in 2020, maintaining the current activity model (compensation based on the number of supply points and structured demand), but it introduces an adjustment to the compensation base. This adjustment reviews the remuneration unit values applicable to distributors' activity in 2000, keeping sufficient incentives to guarantee the operation and maintenance of distribution networks. The adjustment represents a global adjustment for the total gas distribution sector in Spain of Euros 239 million by the end of the 2026 regulatory period.

In reference to the toll and charge methodology dated 25 July 2020 published in the Official State Gazette (BOE), Circular 6/2020 of 22 July by the Spanish National Markets and Competition Commission, establishing the methodology for calculating natural gas transmission tolls, local networks and regasification, shall be applicable in full as of 1 October 2021. Distribution and transmission tolls are subdivided into transmission network input tolls, transmission network output tolls and local network tolls (non-transmission trunk networks). These tolls will be differentiated by consumption level only and will be published before the start of each gas year (1 October). The Resolution of the Spanish National Markets and Competition Commission of 22 September 2020 establishes the tolls for accessing transmission networks, local networks and regasification from October 2020 to September 2021, as per the methodology prior to Circular 6/2020.

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. These settlements are currently being carried out by the CNMC, although the responsibility for this process has returned to the Ministry.

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 of Ecological Transition and Demographic Challenge.

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:

- 2016: 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.)..

- 2017: The final settlement for 2017 produced a deficit of Euros 24.8 million, whereby Nortegas Group companies had to assume a deficit of Euros 1.6 million.

- 2018: The CNMC has published the surplus for 2018, which amounts to Euros 30.9 million, whereby Euros 0.35 million corresponds to Nortegas Energía Distribución, S.A.U. and Euros 1.53 million to NED España Distribución, S.A.U.

- 2019: The final settlement for this year gave a surplus balance of Euros 354 million – Euros 13.3 million for Nortegas Energía Distribución, S.A.U. and Euros 9.5 million for NED España Distribución, S.A.U.

- In 2020: the imbalance between income and gas system costs is expected to be positive (surplus).

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.

The approval of the 2018 and 2019 surplus has allowed for the early repayment of existing debt from previous years. The only current debt on an industry level is therefore from 2014.

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 petroluem 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 Ministry 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 2020 the main Resolution is that of 08 July 2020, by the Directorate-General for Energy Policy and Mining, publishing the new pre-tax sales prices of piped liquefied petroleum gases.

2. <u>Basis of Presentation</u>

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 2020 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.

The Nortegas Group's consolidated annual accounts for 2019 were approved by shareholders at their general meeting held on 30 October 2020.

Additionally, the Parent Company forms part of Grupo Nature Investments, S.a.r.l., the parent company of which is Nature Investments, S.a.r.l., with registered address at 19 rue de Bitbourg, Luxembourg. The latter company draws up the consolidated financial statements, the Spanish translation of which will be deposited with the Mercantile Registry of Bizkaia.

(a) **<u>Basis of presentation of the annual accounts</u>**

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

<u>(b) Comparative information</u>

In accordance with IAS 1, for comparison purposes the information contained in these notes to the consolidated annual accounts for 2020 is presented alongside similar information for 2019, which was not part of the Group’s 2019 consolidated annual accounts.

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

policies

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:

- *Impairment of non-current assets (see note 8)*

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.

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

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.

- *Income tax (see note 13)*

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.

- *Provisions for risks and expenses (see note 25)*

Despite the fact that these estimates have been made based on the best information available at the close of the year ended 31 December 2020, 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.

- *Settlement of regulated activities (see note 1.1b)*

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.

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

On 1 January 2019, IFRS 16 "Leases" published by the International Accounting Standards Board (IASB), adopted by the European Union for its use in Europe, was applied for the first time.

The accounting policies used in the preparation of these Consolidated financial statements correspond with those used for the year ended on 31 December 2019, except for the application on 1 January 2020, of the following amendments adopted by the European Union to be applied in Europe:

- the amendments to IFRS 3 "Business combinations", which clarify the definition of a business, aiming at helping entities to determine if a transaction should be recognised as a business combination under IFRS 3 or asset acquisition.

- the amendments to IFRS 9, IAS 39 and IFRS 7 "Interest rate benchmark reform" address the uncertainties related to the reform of interbank rates (IBOR indexes) avoiding the discontinuation of existing hedges due to temporary exceptions to the application of certain specific requirements of hedging accounting.

Standards issued pending application

At the date these Consolidated financial statements, the following standards, amendments and interpretations had been issued, all of which are effective subsequent to 1 January 2021:

		Mandatory application	
Standard		**IASB**	**European Union**
IFRS 17	Insurance contracts	01.01.2023	(*)
Amendments to IAS 1	Presentation of Financial Statements: Classification of liabilities and current or non-current	01.01.2023	(*)
Amendments to IAS 37	Onerous contracts – Costs of fulfilling a contract	01.01.2022	(*)
Annual improvements in IFRS	2018-2020 cycle	01.01.2022	(*)
Amendments to IAS 16	Property, plant and equipment: Proceeds before intended use	01.01.2022	(*)
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	IBOR reform (Phase 2)	01.01.2021	01.01.2021

(*) Pending approval by the European Union.

The Group has not applied in advance of the authorisation for issue of these Consolidated financial statements any published standard, interpretation or amendment that has not yet come into force. The Group believes that their application would not have had a material impact on these Consolidated financial statements.

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 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 recognises 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) 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 recognise 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,

(d) 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.

(e) 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.

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).

(f) Intangible assets

Goodwill

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 programme.

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 recognised 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).

(g) Lease contracts

As mentioned in note 2.d, the Group started applying IFRS 16 Leases to its lease contracts on 1 January 2019.

Leases determine the control to use an identified asset for a period of time in exchange for a consideration.

The right-of-use asset is initially recorded at cost, which includes:

- The amount of the initial measurement of the lease liability;

- Any lease payment made on or prior to the commencement of the lease, less any incentives received;

- Any initial direct costs incurred by the lessee; and

- An estimate of the costs to be incurred by the lessee in dismantling and restoring the asset.

Subsequent to initial recognition, the right-of-use asset is recorded at cost less accumulated depreciation and impairment losses. Depreciation of the right-of-use asset is recognised under Amortisation and provisions in the consolidated income statement on a straight-line basis over the period from the start of the contract to its expiry date, except when ownership of the contract is transferred when the contract term ends or the right-of-use amount includes the exercise of a purchase option, whereby the depreciation period is calculated on the basis of the useful life of the underlying asset. Furthermore, the right-of-use asset is subsequently adjusted as a result of certain re-estimates affecting the lease liabilities.

The lease liabilities are measured at the present value of the lease payments to be made subsequent to the start of the contract discounted using the interest rate implicit in the lease or using the incremental rate if the former cannot be readily determined. Generally speaking, future payments are discounted using the incremental interest rate.

Lease payments include:

- Fixed or in-substance fixed payments;
- Variable payments that depend on an index or rate;
- The amounts expected to be paid by the lessee under residual value guarantees;
- The price of exercising a purchase option if the lessee is reasonably certain to exercise this option;
- The amounts payable during optional renewal periods, provided that the extension of a lease is considered to be reasonably certain; and
- Payments for terminating the lease early if it is considered reasonably certain that the lease will be terminated early;

Subsequently, lease liabilities are measured at amortised cost using the effective interest rate and they are remeasured when there is a change in the index or rate, in the amounts expected to be paid under residual value guarantees or when there are changes that affect the estimated price of exercising purchase options, or extending or terminating the lease. The financial restatement is recorded under Finance cost in the consolidated income statement (note 33).

Contingent rents subject to the occurrence of a specific event and variable payments that depend on the income from or the use of the underlying asset are recorded when incurred under Other expenses in the consolidated income statement instead of forming part of the lease liability.

(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 assets 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) 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.

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 regard, at the end of 2020, the Group has carried out transactions for which Euros 49.9 million have been derecognised from its assets recorded under Trade and other receivables as the conditions detailed above were met (Euros 39.5 million in 2019).

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 realise the assets and settle the liabilities simultaneously.

(j) Distributions to Shareholders

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

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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 termination benefits 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.

(p) 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.

(q) Recognition of revenue

Revenue from the sale of goods and the rendering of services is recognised 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 2020 and pending settlement by the Spanish National Markets and Competition Commission (CNMC). The final settlement for 2020 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 (with fees to 2019) and CNMC resolutions (with fees as from 2020) published at the end of each year establish the remuneration for the coming year based on expected sales and new consumers 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/1259/2019, published on 20 December 2019, adjusted the final remuneration for 2018 based on the final sales and consumer figures. Subsequently, on 31 December 2020, Order TED/1286/2020 approved the final remuneration for 2019.

The CNMC's resolution of 18 December 2019, established the remuneration for distribution activity for 2020 through application of the parameters established by Law 18/2014 of 15 October 2014 approving urgent measures for growth, competitiveness and efficiency. The CNMV Resolution dated 11 February 2021, has revised the 2020 remuneration figure based on the information available to the Committee in October 2020. For 2020, 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 amounted to Euros 1,737 thousand and it was 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 TEC71367/2018), and it was securitised before 31 December 2018.

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

In 2019 the system surplus for 2018 was published, amounting to Euros 30.9 million. According to current legislation, the debt that the system had with Nortegas relating to the 2017 deficit was cancelled in the 2019 settlement.

The gas system surplus for 2019 of Euros 354 million was published in 2020, which will be used to offset previous years of deficit. The only year with outstanding debt for the system was 2014.

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 recognised in profit or loss when the Group's right to receive payment is established.

(r) 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 related to investments in subsidiaries, associates and interests in joint ventures over which the Group is able to control the timing of the reversal of the temporary difference and it is not probable that the temporary 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. However, assets that arise 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 2020 and in 2018. Furthermore, Nortegas Green Energy Solutions, S.L.U. joined the Group during the year ended 31 December 2020. The accounts of this company, as is the case with those of the sole shareholder, were not included in the scope of consolidation of the accompanying consolidated annual accounts.

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.

(s) 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.

(t) 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.

(u) 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 (e).

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.

(v) 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. Business combinations

The Group has not performed any business combinations in 2020 or 2019.

5. Segment information

The table below contains segment information at 31 December 2020 and 2019 for each of the Group's businesses, obtained by applying the criteria described in note 3(s).

	Thousands of Euros		
	Segments		
31.12.2020	**Natural gas**	**LPG**	**Total**
Ordinary revenue	193,464	22,964	**216,428**
Work carried out for the Group's own assets	6,697	301	**6,998**
Supplies	(3,846)	(12,792)	**(16,638)**
Personnel expenses	(14,362)	-	**(14,362)**
Depreciation of PPE expenses	(77,682)	(6,627)	**(84,309)**
Change in trade receivables and contract assets	(25)	(20)	**(45)**
Other expenses	(26,185)	(3,417)	**(29,602)**
Other income	5,142	6,216	**11,358**
Results from operating activities	**83,203**	**6,625**	**89,828**
Finance income (unallocated)	-	-	**73**
Finance cost (unallocated)	-	-	**(37,539)**
Income tax (unallocated)	-	-	**(11,391)**
Share in profit from investments accounted for using the equity method (unallocated)	-	-	**156**
Profit/(loss) for the year			**41,127**
Segment assets	2,497,049	131,844	**2,628,893**
Segment liabilities	1,380,060	116,490	**1,496,550**

	Thousands of Euros		
	Segments		
31.12.2019	**Natural gas**	**LPG**	**Total**
Ordinary revenue	198,488	24,184	**222,672**
Work carried out for the Group's own assets	6,749	256	**7,005**
Supplies	(3,666)	(14,755)	**(18,421)**
Personnel expenses	(12,323)	-	**(12,323)**
Depreciation of PPE expenses	(76,799)	(6,547)	**(83,346)**
Change in trade receivables and contract assets	428	(64)	**364**
Other expenses	(32,111)	(3,411)	**(35,522)**
Other income	7,349	6,383	**13,732**
Results from operating activities	**88,115**	**6,046**	**94,161**
Finance income (unallocated)	-	-	**224**
Finance cost (unallocated)	-	-	**(22,545)**
Income tax (unallocated)	-	-	**(15,423)**
Share in profit from investments accounted for using the equity method (unallocated)	-	-	**158**
Profit/(loss) for the year			**56,575**
Segment assets	2,797,533	135,949	**2,933,482**
Segment liabilities	1,557,379	123,937	**1,681,316**

6. Subsidiaries

Appendix I contains information about the subsidiaries included in the Group's scope of consolidation at 31 December 2020 and 2019.

There have been no changes to the scope of consolidation during 2020 and 2019.

7. Property, Plant and Equipment

Details of property, plant and equipment and movement in 2020 and 2019 are as follows:

	Thousands of Euros						
31.12.2020	**Land**	**Buildings**	**Technical installations and machinery**	**Other installations, equipment and furniture**	**Under construction and advances**	**Other property, plant and equipment**	**Total**
Cost at 31 December 2019	900	5,584	1,750,370	81,093	6,594	7,743	**1,852,284**
Additions	-	-	260	1,147	24,502	49	**25,958**
Disposals	-	-	(67)	(673)	(292)	-	**(1,032)**
Transfers	(2)	(2)	24,613	386	(24,995)	-	**-**
Cost at 31 December 2020	898	5,582	1,775,176	81,953	5,809	7,792	**1,877,210**
Accumulated depreciation at 31 December 2019	-	(2,983)	(776,188)	(65,719)	-	(6,696)	**(851,586)**
Depreciation	-	(151)	(50,777)	(3,438)	-	(332)	**(54,698)**
Disposals	-	-	14	650	-	-	**664**
Accumulated depreciation at 31 December 2020	-	(3,134)	(826,951)	(68,507)	-	(7,028)	**(905,620)**
Carrying amount at 31 December 2020	**898**	**2,448**	**948,225**	**13,446**	**5,809**	**764**	**971,590**

	Thousands of Euros						
31.12.2019	**Land**	**Buildings**	**Technical installations and machinery**	**Other installations, equipment and furniture**	**Under construction and advances**	**Other property, plant and equipment**	**Total**
Cost at 31 December 2018	439	5,303	1,726,529	83,494	9,560	7,620	**1,832,945**
Additions	-	-	396	950	21,998	120	**23,464**
Disposals	-	(128)	(21)	(3,880)	(99)	3	**(4,125)**
Transfers	461	409	23,466	529	(24,865)	-	**-**
Cost at 31 December 2019	900	5,584	1,750,370	81,093	6,594	7,743	**1,852,284**
Accumulated depreciation at 31 December 2018	-	(2,845)	(726,151)	(66,212)	-	(6,372)	**(801,580)**
Depreciation	-	(146)	(50,040)	(3,387)	-	(324)	**(53,897)**
Disposals	-	8	3	3,880	-	-	**3,891**
Accumulated depreciation at 31 December 2019	-	(2,983)	(776,188)	(65,719)	-	(6,696)	**(851,586)**
Carrying amount at 31 December 2019	**900**	**2,601**	**974,182**	**15,374**	**6,594**	**1,047**	**1,000,698**

The additions recognised in 2020 under the heading Under construction and advances for Euros 24,502 thousand (Euros 21,998 thousand in 2019), 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 2,130,183 thousand (Euros 2,110,846 thousand in 2019). In addition, there is automatic insurance coverage for damages of Euros 426,037 thousand (Euros 422,169 thousand in 2019).

Fully depreciated assets

The cost of fully depreciated property, plant and equipment still in use at 31 December 2020 and 2019 is as follows:

	Thousands of Euros	
	31.12.2020	**31.12.2019**
Buildings	1,626	1,466
Technical installations and machinery	158,884	156,418
Other installations, equipment and furniture	37,929	36,812
Other property, plant and equipment	4,874	4,809
	203,313	**199,505**

Property, plant and equipment pledged as collateral

At 31 December 2020 and 2019, the Group has not pledged any fixed assets to secure bank loans.

Commitments

On 31 July 2020 Ned Suministro GLP, S.A.U. entered into a Framework Purchase Agreement to acquire certain LPG assets. The effectiveness of this Framework Agreement, and therefore that of the asset transfer, is subject to certain conditions precedent which have not yet been met at the date of preparation of these consolidated annual accounts. This agreement colud involve an investment commitment of up to Euros 6.1 million depending on the amount of LPG assets finally acquired on the basis of the Framework Agreement. (investment commitments at 31 December 2019 were not significant).

8. Intangible assets

Details of intangible assets and movement during the year ended 31 December 2020 and 2019 are as follows:

	Thousands of Euros			
31.12.2020	**Patents, licences, trademarks and similar**	**Goodwill**	**Computer software**	**Total**
Cost at 31 December 2019	1,531,498	45,910	24,686	**1,602,094**
Additions	-	-	2,250	**2,250**
Disposals	-	-	(7,831)	**(7,831)**
Cost at 31 December 2020	1,531,498	45,910	19,105	**1,596,513**
Accumulated amortisation at 31 December 2019	(62,346)	-	(17,911)	**(80,257)**
Amortisation	(25,798)	-	(3,009)	**(28,807)**
Disposals	-	-	7,781	**7,781**
Accumulated amortisation at 31 December 2020	(88,144)	-	(13,139)	**(101,283)**
Carrying amount at 31 December 2020	**1,443,354**	**45,910**	**5,966**	**1,495,230**

	Thousands of Euros			
31.12.2019	**Patents, licences, trademarks and similar**	**Goodwill**	**Computer software**	**Total**
Cost at 31 December 2018	1,531,498	45,910	21,900	**1,599,308**
Additions	-	-	2,786	**2,786**
Cost at 31 December 2019	1,531,498	45,910	24,686	**1,602,094**
Accumulated amortisation at 31 December 2018	(36,548)	-	(15,170)	**(51,718)**
Amortisation	(25,798)	-	(2,741)	**(28,539)**
Accumulated amortisation at 31 December 2019	(62,346)	-	(17,911)	**(80,257)**
Carrying amount at 31 December 2019	**1,469,152**	**45,910**	**6,775**	**1,521,837**

At 31 December 2020 and 2019 the Group has no commitments to acquire intangible assets.

Goodwill

Goodwill resulting from the business combination undertaken during 2017, amounting 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 2020 and 2019 by Cash-Generating Unit (CGU) is as follows:

	Thousands of Euros	
	2020	**2019**
Natural gas distribution in the Basque Country	15,302	15,302
Natural gas distribution in Asturias and Cantabria	30,052	30,052
Distribution and supply of liquefied petroleum gas	556	556
	45,910	**45,910**

Fully amortised assets

The cost of fully amortised intangible assets in use at 31 December 2020 and 2019 is as follows:

	Thousands of Euros	
	31.12.2020	**31.12.2019**
Computer software	6,921	12,701
	6,921	**12,701**

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 best information available at the date of authorisation of these consolidated annual accounts and the mechanisms for updating said remuneration 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 customers and 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% and 0.5%.

- Discount rate before taxes of between 5.63% and 7.02% (between 5.54% and 6.75% in 2019). 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 2020.

Sensitivity analysis

The Group systematically carried out sensitivity analyses on the results of the impairment tests undertaken using changes in the following assumptions in each cash-generating unit:

- A 1% increase in the discount rate for natural gas distribution and 0.5% for the distribution and supply of LPG.
- A 0.5% reduction in growth of supply points
- A 0.5% slowdown in the growth of demand per supply point
- A 5% reduction in LPG consumption per supply point.
- A growth rate in perpetuity of 0%.

In these sensitivity analyses carried out for each individually considered assumption, the impairment has been detected in the following cases:

- In natural gas distribution in the Basque Country, the sensitivity analysis has not detected any impairment.

- In natural gas distribution in Asturias and Cantabria, where the value in use is Euros 26 million higher than the carrying amount, based on the assumption of an increase in the discount rate of 100 basis points, a 0.5% reduction in growth of supply points, a drop in demand per supply point of 0.5% and a growth rate in perpetuity of 0%, the value in use would decrease by Euros 180 million, Euros 31 million, Euros 56 million and Euros 51 million, respectively.

- In LPG distribution and supply, the sensitivity analysis has not detected any impairment.

9. Investments in equity-accounted associates

Below is the information regarding investments in equity-accounted associates at 31 December 2020 and 2019:

Name	Registered office	Activity	Auditor	Group company	% of 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(CAV).	Moore Stephens AMS, S.L.	Nortegas Energía Distribución, S.A.U.	14.29	69
						329

Details of investments in the equity of Group companies and associates in 2020 and 2019 and movement are as follows:

Company	Balance at 31 December 2019	Share in profit	Dividends received	Balance at 31 December 2020
Inkolan, A.I.E.	267	41	-	308
Tolosa Gasa, S.A.	511	115	(112)	514
	778	156	(112)	822

Company	Balance at 31 December 2018	Share in profit	Dividends received	Balance at 31 December 2019
Inkolan, A.I.E.	222	46	-	267
Tolosa Gasa, S.A.	523	112	(124)	511
	745	158	(124)	778

Associates have not incurred contingent liabilities.

10. Right-of-use assets

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

Movement in right-of-use assets in 2020 and 2019 arising from contracts in which the Group acts as lessee is as follows:

Thousands of Euros	Balance at 31.12.2019	Additions	Remeasurement /modification of lease liability	Balance at 31.12.2020
Cost:				
Land	146	–	–	146
Buildings	2,077	–	(723)	1,354
Fleets	658	195	–	853
Other rights-of-use	1,623	–	(111)	1,512
Total cost	**4,504**	**195**	**(834)**	**3,865**
Accumulated depreciation				
Land	(23)	(26)	–	(49)
Buildings	(559)	(511)	–	(1,070)
Fleets	(180)	(185)	–	(365)
Other rights-of-use	(148)	(82)	–	(230)
Total accumulated depreciation	**(910)**	**(804)**	**–**	**(1,714)**
Total net cost	**3,594**	**(609)**	**(834)**	**2,151**

Thousands of Euros	Balance at 01.01.2019	Application of IFRS 16	Additions	Remeasurement /modification of lease liability	Balance at 31.12.2019
Cost:					
Land	–	133	13	–	146
Buildings	–	2,221	–	(144)	2,077
Fleets	–	553	105	–	658
Other rights-of-use	–	1,585	38	–	1,623
Total cost	**–**	**4,492**	**156**	**(144)**	**4,504**
Accumulated depreciation					
Land	–	–	(23)	–	(23)
Buildings	–	–	(559)	–	(559)
Fleets	–	–	(180)	–	(180)
Other rights-of-use	–	–	(148)	–	(148)
Total accumulated depreciation	**–**	**–**	**(910)**	**–**	**(910)**
Total net cost	**–**	**4,492**	**(754)**	**(144)**	**3,594**

11. Financial Assets by Category

Classification of financial assets by category

The classification of financial assets by category and class at 31 December 2020 and 2019 is as follows:

	Thousands of Euros	
	Non-current	Current
	At amortised cost or cost	
31.12.2020	Carrying amount	
Loans and receivables		
Loans to related parties (note 34)		
Fixed rate	-	1,395
Security and other deposits	585	46
Trade receivables for sales and services rendered	-	9,211
Trade receivables	-	7,282
Other receivables	-	57
Total	585	17,991
Total financial assets	**585**	**17,991**

	Thousands of Euros	
	Non-current	Current
	At amortised cost or cost	
31.12.2019	Carrying amount	
Loans and receivables		
Loans to related parties (note 34)		
Fixed rate	-	1
Loans to unrelated parties		
Variable rate	-	53
Security and other deposits	585	44
Trade receivables for sales and services rendered	-	11,438
Trade receivables	-	7,679
Other receivables	-	144
Total	585	19,359
Total financial assets	**585**	**19,359**

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 2020 amounts to income of Euros 73 thousand corresponding to accrued interest income (Euros 224 thousand of finance income in 2019) (see note 33).

12. Current and non-current financial assets

Details of current and non-current financial assets at 31 December 2020 and 2019 are as follows:

	Thousands of Euros			
	2020		2019	
	Non-current	Current	Non-current	Current
Security deposits paid	91	44	91	43
Loans to related parties (note 11)	-	1,395	-	1
Loans to unrelated parties	-	-	-	53
Deposits given	494	2	494	1
Trade and other receivables (note 14)	-	16,550	-	19,261
Total	585	17,991	585	19,359

Current loans to unrelated parties at 31 December 2019 includes the deficit in the gas sector receivable (see notes 1.1(c) and 3(q)).

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 companies NED Suministro GLP, S.A.U and Nortegas Green Energy Solutions, S.L.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 2020 and 2019 are as follows:

	Thousands of Euros	
	31.12.2020	
	Assets	**Liabilities**
Property, plant and equipment and intangible assets	8,495	271,037
Deferred income	-	5,899
Provisions for liabilities and charges	94	-
Other	436	-
Total assets/liabilities	**9,025**	**276,936**

	Thousands of Euros	
	31.12.2019	
	Assets	**Liabilities**
Property, plant and equipment and intangible assets	13,962	278,443
Deferred income	-	6,202
Activation of tax credits	195	-
Other	58	-
Total assets/liabilities	**14,215**	**284,645**

Details of movement in deferred taxes by type of asset and liabilities which has been recognised in deferred income tax (expense)/income at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	31.12.2020	
	Assets	**Liabilities**
Property, plant and equipment and intangible assets	(5,467)	(7,406)
Deferred income	-	(303)
Provisions for liabilities and charges	94	-
Tax credits	(195)	-
Other	378	-
Total assets/liabilities	**(5,190)**	**(7,709)**

	Thousands of Euros	
	31.12.2019	
	Assets	**Liabilities**
Property, plant and equipment and intangible assets	(3,739)	(5,831)
Deferred income	-	(195)
Provisions for liabilities and charges	(708)	-
Tax credits	(250)	-
Other	(618)	-
Total assets/liabilities	**(5,315)**	**(6,026)**

Details of income tax expense for the years ended 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	31.12.2020	**31.12.2019**
Current tax		
For the period	(13,873)	(17,649)
Prior years' adjustments	(38)	1,515
	(13,911)	(16,134)
Deferred taxes		
Origination and reversal of temporary differences		
Property, plant and equipment and intangible assets	1,940	2,092
Provisions for liabilities and charges	94	(708)
Deferred income	302	195
Other	379	(618)
Activation/(application) of tax credits	(195)	(250)
Total deferred tax	2,520	711
	(11,391)	**(15,423)**

A reconciliation of current tax with current income tax liabilities for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of Euros	
	2020	**2019**
Current tax	13,873	17,649
Payments made during the period	(4,340)	(4,195)
Loans to Group companies due to tax effect (note 11)	395	-
Payables to Group companies due to tax effect (note 18)	(163)	(4,161)
Current income tax liabilities	9,765	9,293

Loans to Group companies due to tax effect includes the loan arising from the tax consolidation with Nortegas Energía Grupo, S.L.U. At 31 December 2020, whose accounts are not included in the scope of consolidation of these consolidated annual accounts.

Payables to Group companies due to tax effect includes the debt arising from the tax consolidation with the Group company Nortegas Green Energy Solutions, S.L.U. At 31 December 2020 and at 31 December 2019 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 and profit from continuing operations for the years ended 31 December 2020 and 2019 is as follows:

31.12.2020	**Thousands of Euros**	
	Profit and loss	**Total**
Income and expenses for the period before tax	52,518	52,518
Tax	(12,854)	(12,854)
Non-deductible expenses	(13)	(13)
Deductions	1,320	1,320
Prior years' adjustments	139	139
Other	17	17
Income tax (expense)/income From continuing operations	**(11,391)**	**(11,391)**

31.12.2019	**Thousands of Euros**	
	Profit and loss	**Total**
Income and expenses for the period before tax	71,998	71,998
Tax	(17,514)	(17,514)
Non-deductible expenses	(608)	(608)
Deductions	1,256	1,256
Prior years' adjustments	1,405	1,405
Other	38	38
Income tax (expense)/income From continuing operations	**(15,423)**	**(15,423)**

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.

Article 36 of the Provincial Corporation Tax Regulation states that the income obtained from the transfer of property, plant and equipment cannot be included in the tax base, provided that the proceeds from such transfers are reinvested in certain items of property, plant and equipment, intangible assets or investment property within the period from one year prior to and three years after the date of delivery of the transferred item.

During the eight-month period ended 31 December 2017 and 2018 and 2019, the Parent company obtained income eligible for the reinvestment exemption incentive amounting to Euros 50.9 million, Euros 0.2 million and Euros 0.1 million, respectively At 31 December 2019, the Company had already complied with the requirement to reinvest amounts obtained in such sales by investing in property, plant and equipment (mainly LPG infrastructure and natural gas distribution network) in 2016, 2017 and 2019. In previous years (2016 and the four-month tax period ended 30 April 2017) the Company obtained profits eligible for this same incentive, the information requirements of which established in the abovementioned rules are set out in the notes to the consolidated annual accounts for the years in which the investments were made.

14. Trade and other receivables

Details of trade and other receivables at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	31.12.2020	**31.12.2019**
Sole shareholder (note 34)		
Other receivables	292	1,225
Associates (note 34)		
Other receivables	28	33
Unrelated parties		
Trade receivables	9,700	11,883
Other receivables	6,962	6,420
Personnel	57	144
Impairment allowances	(489)	(444)
Total	**16,550**	**19,261**

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.

(a) Valuation adjustments

Movement in valuation adjustments due to the uncollectibility of trade and other receivables in the years ended 31 December 2020 and 2019 is as follows:

	Thousands of Euros
	31.12.2020
Balance at 31 December 2019	(444)
Charges	(45)
Balance at 31 December 2020	(489)

	Thousands of Euros
	31.12.2019
Balance at 31 December 2018	(808)
Charges	(64)
Reversals	428
Balance at 31 December 2019	(444)

15. Other current assets

Details of other current assets are as follows:

	Thousands of Euros	
	2020	**2019**
Receivables from public entities		
Tax authorities VAT receivable	420	438
Adjustments for prepayments	720	1,146
Total	1,140	1,584

Adjustments for prepayments

This caption includes an amount of Euros 450 thousand (Euros 900 thousand at 31 December 2019) 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	
	31.12.2020	**31.12.2019**
Cash	7	7
Banks	126,953	366,912
	126,960	366,919

17. Equity

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

Capital

At 31 December 2020 and 2019, 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.

At 31 December 2020 and 2019 the Company's sole shareholder is Nortegas Energía Grupo, S.L.U. (company owned 100% by Nature Investments, S.a.r.l.) The Company is thus registered at the Mercantile Registry as a single shareholder company (Sociedad Unipersonal).

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

Shareholder contributions

On 12 March 2019, the sole shareholder made a shareholder contribution of Euros 163 million.

Furthermore, in June 2019 the sole shareholder made an additional shareholder contribution of Euros 40.9 million to strengthen the Group's financial position.

Financial management

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 a minimum investment grade rating of BBB- (in the case of S&P) (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.

The Net Financial Debt/EBITDA ratio in 2020 and 2019 is determined as follows:

	Thousands of Euros	
	2020	**2019**
Liabilities from the issue of bonds and other marketable securities (current and non-current) (note 18)	1,125,240	1,298,985
Security deposits (current and non-current) (note 18)	1,202	1,203
Other financial liabilities (current and non-current) (note 18)	1,430	1,557
Associates (note 18)	634	607
Group companies (note 18)	165	4,161
Loans and borrowings (note 18)	49	50
Leases (note 18)	2,258	3,663
Total financial debt	1,130,978	1,310,226
Less: Cash and cash equivalents	(126,960)	(366,919)
Net financial debt	1,004,018	943,307
EBITDA	174,137	177,507
Net financial debt/EBITDA ratio	5.77	5.31

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 2020 a non-distributable amount of Euros 20,447 thousand is included therein (Euros 22,016 thousand at 31 December 2019), 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 be understood not to have been 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, 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.

The Company's sole shareholder agreed a share premium distribution of Euros 79.1 million, Euros 6.5 million and Euros 73.3 million and Euros 2.2 million on 29 January 2020, 26 May 2020, 24 July 2020 and 24 November 2020, respectively.

The Company's sole shareholder agreed a share premium distribution of Euros 78 million, Euros 3.2 million and Euros 68 million on 1 July 2019, 25 November 2019 and 10 December 2019, respectively.

Other reserves

These reserves are freely available.

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 years ended 31 December 2020 and 2019, is as follows:

	Thousands of Euros	
	Consolidated Profit/ (loss)	
	31.12.2020	**31.12.2019**
Company		
Fully consolidated companies		
Nortegas Energía Distribución, S.A.U.	18,728	36,142
NED España Distribución Gas, S.A.U.	18,842	17,535
NED Suministro GLP, S.A.U.	3,401	2,740
	40,971	56,417
Equity-consolidated companies:		
Inkolan, A.I.E.	41	46
Tolosa Gasa, S.A.	115	112
Total	**41,127**	**56,575**

Distribution of the Parent Company's profit/loss

The proposed distribution of the Parent Company's profit for the years ended 31 December 2020 and 2019 to be submitted to the sole shareholder for approval is as follows:

	2020
Basis of allocation	
Profit for the year	17,372,215.65
Distribution	
Legal reserve	1,737,221.57
Voluntary reserves	15,634,994.08
	17,372,215.65

	2019
Basis of allocation	
Profit for the year	34,779,229.42
Distribution	
Legal reserve	3,477,922.94
Voluntary reserves	31,301,306.48
	34,779,229.42

18. Financial Liabilities by Category

Classification of financial liabilities by category

The classification of financial liabilities by category and class at 31 December 2020 and 2019 is as follows:

	Thousands of Euros				
	Non-current			Current	
	At amortised cost or cost			At amortised cost or cost	Total
31.12.2020	Carrying amount	Fair value	Total	Carrying amount	Total
Debts and payables					
Bonds and other marketable securities (note 21)					
Fixed rate	1,120,835	1,183,495	1,120,835	4,405	4,405
Loans and borrowings	-	-	-	49	49
Group companies (note 34)	-	-	-	164	164
Associates (note 34)	-	-	-	635	635
Security deposits	1,083	1,083	1,083	119	119
Leases	1,615	1,615	1,615	643	643
Other financial liabilities	1,201	1,201	1,201	229	229
Trade and other payables					
Suppliers	-	-	-	2,241	2,241
Creditors	-	-	-	52,719	52,719
Payables on fixed assets	-	-	-	4,731	4,731
Other payables	-	-	-	967	967
Total financial liabilities	**1,124,734**	**1,187,394**	**1,124,734**	**66,902**	**66,902**

	Thousands of Euros				
	Non-current			Current	
	At amortised cost or cost			At amortised cost or cost	Total
31.12.2019	Carrying amount	Fair value	Total	Carrying amount	Total
Debts and payables					
Bonds and other marketable securities (note 21)					
Fixed rate	1,293,640	1,356,065	1,293,640	5,345	5,345
Loans and borrowings	-	-	-	50	50
Group companies (note 34)	-	-	-	4,161	4,161
Associates (note 34)	-	-	-	607	607
Security deposits	1,084	1,084	1,084	119	119
Leases	2,680	2,680	2,680	983	983
Other financial liabilities	1,476	1,476	1,476	81	81
Trade and other payables					
Suppliers	-	-	-	2,408	2,408
Creditors	-	-	-	52,204	52,204
Payables on fixed assets	-	-	-	5,499	5,499
Other payables	-	-	-	774	774
Total financial liabilities	**1,298,880**	**1,361,305**	**1,298,880**	**72,231**	**72,231**

At 31 December 2020 current payables to Group companies includes the debt with the Group company Nortegas Green Energy Solutions, S.L.U. due to current tax arising from the consolidated tax regime amounting to Euros 163 thousand (notes 13 and 34).

At 31 December 2019 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 4,161 thousand (notes 13 and 34).

Net losses and gains by financial liability category

Net losses and gains by financial liability category for the years ended 31 December 2020 and 2019 are as follows:

	Thousands of Euros			
	2020		2019	
	Debts and payable	Total	Debts and payables	Total
Finance cost measured at amortised cost (note 33)	19,311	19,311	20,904	20,904
Other (note 33)	18,228	18,228	1,641	1,641
Net gains/(losses) in profit and loss	**37,539**	**37,539**	**22,545**	**22,545**
Total	**37,539**	**37,539**	**22,545**	**22,545**

19. Current and non-current financial liabilities

Details of current and non-current financial liabilities at 31 December 2020 and 2019 are as follows:

	Thousands of Euros			
	2020		2019	
	Non-current	Current	Non-current	Current
Bonds and other marketable securities (note 21)	1,120,835	4,405	1,293,640	5,345
Loans and borrowings	-	49	-	50
Group companies and associates (note 20)	-	799	-	4,768
Security deposits received (note 20)	1,083	119	1,084	119
Other financial liabilities (note 20)	1,201	229	1,476	81
Leases (note 21.2)	1,615	643	2,680	983
Trade and other payables (note 22)	-	60,658	-	60,886
Total	**1,124,734**	**66,902**	**1,298,880**	**72,231**

20. Financial Liabilities by debt

Details of financial liabilities by debt are as follows:

	Thousands of Euros			
	2020		2019	
	Non-current	Current	Non-current	Current
Related parties				
Debts	-	799	-	4,768
Unrelated parties				
Loans and borrowings	-	49	-	50
Other borrowings	1,201	229	1,476	81
Leases	1,615	643	2,680	983
Security and other deposits received	1,083	119	1,084	119
Total	**3,899**	**1,839**	**5,240**	**6,001**

At 31 December 2019, debts with related parties mainly includes the debt with the sole shareholder due to current tax arising from the consolidated tax regime amounting to Euros 4,161 thousand (notes 13, 18 and 34).

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

Credit facilities and other financing

The Group has a credit facility with a limit of Euros 100 million. At 31 December 2020, no amount was drawn down by the Group (see note 38).

21. Financial liabilities by category

21.1 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 2 November 2020, the rating agency S&P issued a new credit report on Nortegas Energía Distribución, maintaining the investment grade rating of BBB- with a stable outlook.

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.

On 15 July 2020, the Group made a bond repurchase offer relating to its second issue for a maximum amount of Euros 175 million. This offer expired on 23 July with demand exceeding the amount offered. On 27 July 2020, the effective repurchase of Euros 175 million took place. This transaction had a Euros 16.6-million impact on the Group's finance costs.

On 31 December 2020 accrued interest payable amounts to Euros 4,405 thousand (Euros 5,345 thousand in 2019) and is classified in the consolidated balance sheet caption Current liabilities from the issue of bonds and other marketable securities.

21.2 Leases

The Group enters lease agreements in which it acts as lessee mainly in relation to buildings, vehicles and land. Movement in lease liabilities in 2020 and 2019 is as follows:

Thousands of Euros	2020	2019
Opening balance	**3,663**	**–**
Initial application of IFRS 16 (note 2.a)	–	4,492
New lease contracts	195	157
Interest expense	112	129
Principal paid	(878)	(971)
Remeasurement /modification of lease liability	(834)	(144)
Closing balance	**2,258**	**3,663**

Details of lease liabilities by maturity at 31 December 2020 are as follows:

Thousands of Euros	31.12.2020
2021	660
2022	289
2023	257
2024	226
2025	167
From 2026 onwards	1,111
Total	**2,710**
Finance cost	452
Present value of payments	2,258
Total	**2,710**

Details of lease liabilities by maturity at 31 December 2019 are as follows:

Thousands of Euros	31.12.2019
2020	994
2021	750
2022	687
2023	297
2024	178
From 2025 onwards	1,194
Total	**4,100**
Finance cost	437
Present value of payments	3,663
Total	**4,100**

21.3 Statement of cash flows

Movement in liabilities classified as financing activities in the statement of cash flows, excluded from the equity headings, for the years ended 31 December 2020 and 2019, is as follows:

		Cash flows					
Thousands of Euros (2020)	**Balance at 31.12.2019**	**Issue**	**Reimbursements**	**Interest paid**	**Accrued interest**	**Depreciable expenses and other**	**Balance at 31.12.2020**
Bonds	1,293,640	-	(190,745)	-	17,940	-	1,120,835
Loans and borrowings	-	40,500	(40,500)	-	-	-	-
Debts with Group companies and associates	4,768	29	-	-	-	(3,998)	799
Other financing operations	2,760	-	(145)	-	18	(1)	2,632
Leases (note 21.2)	3,663	-	(878)	-	112	(639)	2,258
Accrued interest payable	5,395	-	-	(20,410)	19,469	-	4,454
Total financial debt-loans and other	**1,310,226**	**40,529**	**(232,268)**	**(20,410)**	**37,539**	**(4,638)**	**1,130,978**

The redemption of bonds and debentures of Euros 190,745 thousand includes a payment of Euros 15.7 million for costs associated with the repurchase of bonds maturing in 2027.

	Cash flows							
Thousands of Euros (2019)	**Balance at 31.12.2018**	**Application of IFRS 16**	**Issue**	**Reimbursements**	**Interest paid**	**Accrued interest**	**Depreciable expenses and other**	**Balance at 31.12.2019**
Bonds	1,292,309	-	-	-	-	1,331	-	1,293,640
Loans and borrowings	1,642	-	-	(1,642)	-	-	-	-
Debts with Group companies and associates	3,664	-	153	-	-	-	950	4,768
Other financing operations	2,397	-	449	(107)	-	21	-	2,760
Leases (note 21.2)	-	4,492	-	(971)	-	129	13	3,663
Accrued interest payable	8,472	-	-	-	(24,141)	21,064	-	5,395
Total financial debt-loans and other	**1,308,484**	**4,492**	**602**	**(2,720)**	**(24,141)**	**22,545**	**963**	**1,310,226**

22. Trade and other payables

Details of trade and other payables at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	Current	
	31.12.2020	**31.12.2019**
Related parties (note 34)		
Payables	1,923	2,393
Unrelated parties		
Suppliers	2,241	2,408
Creditors	50,796	49,812
Suppliers of fixed assets	4,731	5,499
Personnel	967	774
Total	**60,658**	**60,886**

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

Unrelated parties include Euros 45,897 thousand for gas sector inter-company settlements, reflecting the estimate at 31 December 2020 (Euros 43,010 in 2019), 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, pursuant to the legislation applicable to the gas sector.

The Group has estimated its settlement for 2020 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 2020, calculated based on the distribution of total authorised fixed remuneration for 2020, 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 during the years ended 31 December 2020 and 2019 is as follows:

	Days	
	31.12.2020	**31.12.2019**
Average supplier payment period	23.62	26.74
Transactions paid ratio	24.00	27.30
Transactions payable ratio	18.73	23.30

	Amount in Euros	
	31.12.2020	**31.12.2019**
Total payments made	61,745,617	62,384,020
Total payments outstanding	4,901,413	10,149,624

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 2020 and 2019:

	31.12.2020				
	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	16,529	21	-	-	16,550
Other financial assets	795	600	46	-	1,441
Total assets	17,324	621	46	-	17,991

	31.12.2019				
	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	19,236	3	4	18	19,261
Other financial assets	1	-	44	53	98
Total assets	19,237	3	48	71	19,359

(iii) Liquidity Risk

At 31 December 2020, the Group has positive working capital of Euros 67,124 thousand (Euros 302,815 thousand in 2019). 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 2020 and 2019. The tables below reflect the analysis of financial liabilities by contracted maturity.

	31.12.2020				
	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					
Interest	49	-	-	-	49
Trade and other payables	58,323	966	1,369	-	60,658
Liabilities from the issue of bonds and other marketable securities					
Principal	-	-	-	1,120,835	1,120,835
Interest	-	-	4,405	-	4,405
Total liabilities	58,372	966	5,774	1,120,835	1,185,947

	31.12.2019				
	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					
Interest	50	-	-	-	50
Trade and other payables	59,613	888	385	-	60,886
Liabilities from the issue of bonds and other marketable securities					
Principal	-	-	-	1,293,640	1,293,640
Interest	-	-	5,345	-	5,345
Total liabilities	59,663	888	5,730	1,293,640	1,359,921

25. Provisions

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

	Thousands of Euros	
	Non-current	
	31.12.2020	31.12.2019
Other personnel provisions	603	211
Other liabilities	19	19
Total	**622**	**230**

Movement in provisions for the years ended 31 December 2020 and 2019 is as follows:

	Thousands of Euros		
	Other personnel provisions (nota 32)	Other liabilities	Total
At 31 December 2019	211	19	230
Charges	392	-	392
At 31 December 2020	603	19	622

	Thousands of Euros			
	Termination benefits (note 32)	Other personnel provisions	Other liabilities	Total
At 31 December 2018	2,934	330	2,222	5,486
Charges	-	-	19	19
Reversals	(1,327)	(119)	(2,222)	(3,668)
Use	(1,607)	-	-	(1,607)
At 31 December 2019	-	211	19	230

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 2020.

Guarantees

The total amount of guarantees extended to third parties (councils and other public entities) at 31 December 2020 amounts to Euros 6,812 thousand (Euros 6,075 thousand in 2019), whilst guarantees received from suppliers amount to Euros 1,564 thousand (Euros 4,384 thousand in 2019).

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 CO2 during combustion. Natural gas is one of the least contaminating fossil fuels, as it contains practically no sulphur.

Throughout 2020, 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 2020, measurements were taken at 14 facilities and all the results fell within the ranges set out in current legislation.

In order to have available a more complete and ambitious risk map than that required by the Environmental Liability Law, in 2020 an environmental risk analysis was voluntarily carried out at natural gas and LPG storage facilities with satisfactory results.

In 2020 a scope 1, 2 and 3 carbon footprint calculation was made. Analysis and detailed work will continue on the footprint in future years.

Following a successful external audit in October 2020, the environmental and quality management systems were recertified as being UNE-EN-ISO 9001:2015 and UNE-EN-ISO-14001:2015 compliant, respectively, with LPG included within the audit scope for the first time.

In accordance with Royal Decree 56/2016, the Company conducted an energy audit of all its work centres and reported the result thereof to the administration. Some of the energy-related improvements identified as a result of the audit are being made.

The Group received no environmental grants or income from activities related to the environment in the year ended 31 December 2020.

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
	31.12.2020
Opening balance	449
Additions	132
Amounts transferred to the income statement	(16)
Closing balance	**565**

	Thousands of Euros
	31.12.2019
Opening balance	335
Additions	117
Amounts transferred to the income statement	(3)
Closing balance	**449**

28. Contract liabilities

Movement in contract liabilities is as follows:

	Thousands of Euros	
	31.12.2020	**31.12.2019**
Opening balance	8,152	4,922
Additions	3,416	3,398
Disposals	(2)	(19)
Amounts transferred to the income statement	(239)	(149)
Closing balance	**11,327**	**8,152**

Contract liabilities include connection and extension activities.

29. Other current liabilities

Details of other current liabilities are as follows:

	Thousands of Euros	
	31.12.2020	**31.12.2019**
Public entities, other		
tax authorities Withholdings payable to	1,758	2,032
Social Security contributions	208	215
Public charges, taxes and councils	2,703	4,237
Other	1,030	952
Total	**5,699**	**7,436**

Public charges, taxes and councils includes the amount relating to charges for subsoil use, which has not been included under the scope of IFRS 16 due to its consideration as a variable cost. Amounts paid in 2020 and 2019 for this item amount to Euros 4.7 million and Euros 4.1 million, respectively. It is likely that a similar amount will be paid in coming years.

30. Revenue and supplies

Details of revenue by category are as follows:

	Thousands of Euros	
	Domestic	
	2020	2019
Revenue from regulated propane gas activities	20,621	22,142
Revenue from regulated natural gas activities	171,643	177,775
Other regulated revenue	22,850	21,555
Other unregulated revenue	1,314	1,200
	216,428	**222,672**

Regulated activity revenue mainly relates to the amount accrued for regulated remuneration to gas distributors and also to the sale of propane gas. Details of supplies are as follows:

	Thousands of Euros	
	2020	2019
Merchandise used		
Purchases	11,697	13,827
Change in inventories	514	432
	12,211	14,259
Other purchases and external expenses		
Subcontracted work	3,646	3,246
Other	781	916
	4,427	4,162
	16,638	**18,421**

Subcontracted work at 31 December 2020 and 2019 relates mainly to the periodic inspections outsourced to third parties.

Other revenue relates to an amount of Euros 3,985 thousand recognised in 2020 (Euros 3,985 thousand in 2019) based on the agreement signed by Nortegas Energía Distribución, S.A.U and EDP Iberia whereby compensation in the event of changes in the regulations affecting the remuneration of gas meter rentals is guaranteed (see note 15).

In addition, this heading includes 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.

31. Other expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2020	2019
Usage fees	195	210
Repairs and maintenance	3,104	3,084
Independent professional services	438	940
Services rendered to Group companies (note 34)	15,876	13,891
Insurance premiums	563	629
Utilities	255	278
Other services	4,209	7,153
Taxes	3,885	5,731
Other expenses	1,077	3,606
	29,602	**35,522**

32. Personnel expenses

Details of personnel expenses are as follows:

	Thousands of Euros	
	2020	2019
Salaries and wages	9,863	10,415
Other employee benefit expenses and taxes	2,681	2,861
Termination benefits	1,077	-
Allocation to/(reversal of) personnel provisions (note 25)	392	(1,327)
Contributions to other long-term benefits	349	374
	14,362	**12,323**

33. Financial income and expenses

Details of financial income and expense are as follows:

	Thousands of Euros	
	2020	**2019**
Finance income on loans to Group companies (notes 11 and 34)	31	109
Finance income (see note 11)	42	115
Interest expense on debts, Banks (note 18)	(337)	(367)
Interest expense on debts, bond issuance (note 18)	(18,974)	(20,537)
Other financial costs (note 18)	(18,228)	(1,641)
Net finance cost	**(37,466)**	**(22,321)**

34. Related party balances and transactions

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

Details of balances by category at 31 December 2020 and 2019 are as follows:

	Thousands of Euros			
31.12.2020	**Sole Shareholder**	**Group companies**	**Associates**	**Total**
Non-current investments in Group companies and associates				
Equity-accounted investees (note 9)	-	-	822	**822**
Total non-current assets	-	-	822	**822**
Current investments in Group companies and associates				
Loans to companies (note 11)	395	1,000	-	**1,395**
Trade and other receivables				
Other receivables (note 14)	292	-	28	**320**
Total current assets	687	1,000	28	**1,715**
Total assets	687	1,000	850	**2,537**
Current debt				
Other financial liabilities (note 20)	1	163	635	**799**
Payables, Group companies and associates (note 22)	1,880	43	-	**1,923**
Total current liabilities	1,881	206	635	**2,722**
Total liabilities	1,881	206	635	**2,722**

31.12.2019	Thousands of Euros			
	Sole Shareholder	Group companies	Associates	Total
Non-current investments in Group companies and associates				
Equity-accounted investees (note 9)	-	-	778	**778**
Total non-current assets	-	-	778	**778**
Current investments in Group companies and associates				
Loans to companies (note 11)	1	-	-	**1**
Trade and other receivables				
Other receivables (note 14)	1,225	-	33	**1,258**
Total current assets	1,226	-	33	**1,259**
Total assets	1,226	-	811	**2,037**
Current debt				
Other financial liabilities (note 20)	4,161	-	607	**4,768**
Payables, Group companies and associates (note 22)	2,393	-	-	**2,393**
Total current liabilities	6,554	-	607	**7,161**
Total liabilities	6,554	-	607	**7,161**

Group transactions with related parties

Group transactions with related parties at 31 December 2020 and 2019 are as follows:

31.12.2020	Thousands of Euros			
	Sole Shareholder	Group companies	Associates	Total
Income				
Other services rendered	-	-	303	**303**
Other operating income	56	-	-	**56**
Financial instruments				
Finance income (note 33)	-	31	-	**31**
Share in the profit of investments (note 9)	-	-	156	**156**
Total income	56	31	459	**546**
Expenses				
Other expenses (note 31)	15,787	89	-	**15,876**
Total expenses	15,787	89	-	**15,876**

	Thousands of Euros			
31.12.2019	**Sole Shareholder**	**Group companies**	**Associates**	**Total**
Income				
Other services rendered	-	-	302	**302**
Other operating income	63	-	-	**63**
Financial instruments				
Finance income (note 33)	109	-	-	**109**
Share in the profit of investments (note 9)	-	-	158	**158**
Total income	172	-	460	**632**
Expenses				
Other expenses (note 31)	13,891	-	-	**13,891**
Total expenses	13,891	-	-	**13,891**

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

In the year ended 31 December 2020, the Directors and members of the Company's senior management have received remuneration amounting to Euros 0 thousand and Euros 699 thousand, respectively (Euros 58 thousand and Euros 859 thousand, respectively, in 2019). Furthermore, members of senior management have an outstanding repayable amount on loans of Euros 1 thousand (Euros 7 thousand in 2019). The Parent 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 8 thousand in 2020 (Euros 25 thousand in 2019).

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 years ended 31 December 2020 and 2019, 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. Mark William Mathieson who is a member of the Board of Directors of Cadent Gas, Ltd UK.

35. Employee Information

The average number of Group employees in the years ended 31 December 2020 and 2019 is as follows:

	Average number of employees	
	31.12.2020	**31.12.2019**
Directors	6	8
Managers	25	26
Other	118	126
	149	**160**

At 31 December 2020, the Group has no employees with a disability rating of 33% or higher (or equivalent local rating) (one at 31 December 2019).

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 2020 and 2019 the distribution by gender of Group personnel and the directors is as follows:

	Number			
	2020		**2019**	
	Female	**Male**	**Female**	**Male**
Board members	-	4	-	4
Directors	-	5	-	7
Managers	10	13	9	17
Other	24	87	28	98
	34	**109**	**37**	**126**

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 years ended 31 December 2020 and 2019:

	Thousands of Euros	
	31.12.2020	**31.12.2019**
Audit services, consolidated annual accounts	46	54
Audit services, individual annual accounts for the Company	35	41
Audit services, annual accounts for subsidiaries	48	55
Other audit.related services	39	-
	167	**150**

In the year ended 31 December 2020, other firms affiliated with KPMG International did not invoice the Group for other professional service fees (Euros 203 thousand in 2019).

37. Impact of Covid-19

These consolidated annual accounts have been affected to a limited extent by the strict measures adopted to slow down the spread of the Covid-19 virus, which have significantly impacted the economy.

a) Use of accounting estimates

Although it is not possible to accurately ascertain the impact of Covid-19 on these consolidated annual accounts, the estimates made by the Nortegas Group based on the best information available are set forth below.

B) Impairment of non-financial assets

The Nortegas Group has included the impacts of Covid-19 (mainly less growth in supply points and a drop in industrial demand) in the business forecasts used to conduct the impairment test on the cash-generating units that require it.

b) Impact on the consolidated income statement for the year ended 31 December 2020

Given the regulated nature of 99.4% of the Group's revenue, not affected by price changes and limited exposure to demand, the effect of the measures adopted, the temporary industry shut-down and the stoppage of almost all commercial activity have had a limited impact on the consolidated income statement.

In addition, in terms of net operating costs, the effects have offset each other; higher costs relating to staff health and safety and transport and donations have been offset by a saving in costs due to less commercial activity, travel cancellations and cuts in other non-basic operating expenses.

d) Financial risks

Liquidity Risk

At 31 December 2020, the Group has positive working capital of Euros 67,212 thousand (Euros 302,815 thousand in 2019) and cash and cash equivalents of Euros 126,960 thousand. Furthermore, the Group has an unused credit facility of Euros 100 million (see note 38).

The aggregate amount relating to cash and cash equivalents and the credit facility is 1.9 times the amount of the Group's annual outlays.

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 Group to fair value interest rate risks, which have not been significantly affected by the impact of Covid-19.

38. Events after the Reporting Period

On 21 January 2021, the Group carried out a bond issue within the framework of the Euro Medium Term Note Programme (EMTN) and these obtained the S&P rating of BBB-. This issue amounts to Euros 550 million, matures on 22 January 2031 and has an annual interest rate of 0.905%.

On 13 January 2021, the Group made a bond repurchase offer relating to its first issue on 28 September 2017 for Euros 550 million and maturing on 28 September 2022. This offer expired on 27 January and a total of Euros 407,438 thousand was bought back.

On 28 January 2021, Nortegas Group has refinanced the credit facility that it had at Nortegas Energía Distribución, S.A.U. with a limit of Euros 100 million, increasing the limit to Euros 120 million and transferring it to Nortegas Energía Grupo, S.L.U. in order to finance all the subsidiaries of mentioned company.

No other additional 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 2020.

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

Details of subsidiaries

31 December 2020

(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	% of ownership	% of voting rights	Consolidation based on
NED España Distribución Gas, S.A.U.	Gijón (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(CAV).	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 2019

Name	Registered address	Activity	Auditor	Company holding investment	% of ownership	% of voting rights	Consolidation based on
NED España Distribución Gas, S.A.U.	Gijón (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(CAV).	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.

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

1. Most significant milestones in 2020

The health crisis caused by Covid-19 shaped 2020, affecting normal business during the year but not stopping Nortegas (the Group) from rapidly adapting, minimising the impacts, continuing operations and achieving most of the development and growth targets set for 2020 in all its areas of activity.

In 2020, the Company's Expansion Plan has been essentially developed and the Operational Efficiency Plan has been rolled out. Focused work has also been carried out to define the Strategic Plan in order to continue improving the natural gas distribution business with a view to continuing to use clean, efficient and sustainable energy.

In terms of legislation, the challenge facing Nortegas has centred on defending and encouraging regulatory stability to develop the distribution business, emphasising the use of gas, both conventional and renewable, as an energy source in the future low-carbon economy.

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 8,306 km of gas pipelines distributed throughout the Basque Country, Asturias and Cantabria. It employs 140 professionals at 31 December 2020 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 2020 it has more than 1 million natural gas and LPG supply points, is present in 384 municipalities, of which 225 are supplied with natural gas and the rest with LPG. The average penetration rate in Asturias, Cantabria and the Basque Country is 69%.

Operational data	**2020**	**2019**	**2018**	**CAGR (2018-2020)[1]**
Connection points	**1,044,243**	**1,035,062**	**1,025,525**	1%
Natural gas (NG)<4 bar	960,392	951,595	942,305	
Natural gas (NG)>4 bar	669	668	672	
LPG	83,182	82,799	82,548	
Energy distributed NG+LPG (GWh)	**27,764**	**31,967**	**31,710**	-6%
Energy distributed (NG) (GWh)	27,397	31,588	31,287	
Energy distributed (LPG) (GWh)	367	379	423	
Network length (NG+LPG) (Km)	**8,306**	**8,242**	**8,207**	1%
Km NG	7,910	7,861	7,831	
Km LPG	396	381	376	

Note 1: Compound annual growth rate from 2018 to 2019

3. Analysis of 2020 results

The execution of the Growth Plan in 2020, has meant that consolidated EBITDA (revenue before depreciation and amortisation) recognised by Nortegas in 2020 amounts to Euros 174 million, compared to Euros 177.5 million in 2019, down 2% on the previous year.

The Group's revenues in 2020 totalled Euros 216.4 million compared to Euros 222.7 million in 2019.

Finally, Nortegas and its subsidiaries obtained a profit of Euros 41 million in 2020.

Details by business segment of the investments made by Nortegas are broken down below. In 2020 there has been an increase of 8% compared to 2018.

Gross investments (millions of Euros)	Jan-Dec 2020	Jan-Dec 2019	Jan-Dec 2018
Distribution	26.4	24.3	21.2
LPG	1.8	1.9	1.0
TOTAL	**28.2**	**26.2**	**22.2**

4. Most significant events in 2020

The Group 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 is also present in the liquefied petroleum gas market, where it is in charge of supplying the fuel in addition to the activities mentioned above.

The Nortegas Group has continued to expand its network in its areas of influence. Some of the key projects are indicated below:

- ✓ Completion and gassing up of Phase II of the Maoño-Escobedo project in Cantabria covering 2,471.50 metres.
- ✓ Completion and gassing up of the network extension work in Selaya (Cantabria), finally covering 4,977.20 metres and 108 supply points.
- ✓ Start of work on the gas supply to San Esteban de Pravia under the Gasification Agreement with the Principality of Asturias.
- ✓ Completion of Phases I and II of the Heras Gajano network extension project, slated to end in 2021 with the completion of Phase II which is currently being built.
- ✓ Completion and gassing up of the gas supply to the Siantianes industrial estate in Sariego.
- ✓ Completion and gassing up of the LPG supply to Grandas de Salime in Asturias, finally covering 3,000 metres and 100 supply points.
- ✓ Receipt of all permits for the LPG supply to Vega de Pas in Cantabria, which will be built in 2021 after the engineering work is completed and materials procured for the work.
- ✓ Completion and gassing up of the project to supply gas to sector 18 of the Erribera industrial estate in Aduna.

- ✓ Completion and gassing up of the first phase of the gas supply to the old quarter of Laguardia, having completed the stretch along Calle Rua Mayor de Peralta. The following phases will be completed as the full remodelling of the old quarter progresses.
- ✓ Authorisation obtained to supply LPG to the municipality of Cerredo in Asturias with an investment of Euros 330 thousand.
- ✓ Authorisation obtained to supply LPG to the municipality of Molledo in Cantabria with an investment of Euros 245 thousand.
- ✓ Completion of analysis of 80% of the municipalities currently supplied with natural gas, with a view to increasing their saturation and extending the network to new areas currently not connected to the gas supply. Sixty municipalities analysed over the year.
- ✓ Permits were issued for 193 natural gas network extensions and four new estates, which will connect 3,022 dwellings to the gas network.
- ✓ Euros 4 million invested to replace metal gas pipes in Gijón, Oviedo, Santander and San Sebastian, along with other network improvements to boost network quality and supply security.

Other significant milestones were reached as well:

- ✓ No accidents involving the Group's workforce or its partners' personnel were reported during the year.
- ✓ As a provider of an essential service, Nortegas and its subcontractors have played a role in ensuring complete supply security and continuity, adapting their work procedures at all times based on the rules introduced by the public authorities to continue operating during the pandemic. The Group has operated at full capacity and without reporting any notable incidents throughout.
- ✓ Opening of Nortegas' new head offices in Asturias in the Galeno building on the Roces Industrial Estate (Gijón), which now serves as a single base for Nortegas' 25 workers in Asturias.
- ✓ Digitalisation of field activities (Technical Services, Emergency Response, O&M and Construction) and back office (such as robotisation of meter reading validation) to optimise operations and achieve excellence.
- ✓ Piloting of a natural gas smart meter project in the town of Ugao-Miraballes, also increasing supply security by implementing a solution to measure variables that enable a remote response to incorrect combustion alerts or gas leak alerts, and to boost energy efficiency by generating consumption logs and reporting excessive consumption.

Sales-related milestones:

- ✓ 351 GWh of new business in the industrial and tertiary segment between new connections and expansions of existing supplies.
- ✓ 15,003 new natural gas and 944 new LPG points connected.
- ✓ Institutional agreements entered into with Avilés, Corvera, Gijón, Santander and Bilbao city councils and housing associations in Asturias (VIPASA) and Cantabria (GESVICAN) to install natural gas central heating systems in around 4,000 social homes.
- ✓ Expansion of traditional channel of partner installers, with 168 new members.

- ✓ Development of the online channel resulting in 1,200 leads through Facebook, LinkedIn, Instagram and Google Ads, with a conversion rate of 7.5%.

- ✓ Launch in November 2020 of new LPG maintenance services (Nortegas A PUNTO), with 240 customers attracted so far and 10 quotes provided for the boiler room renting service.

- ✓ Satisfactory completion of external annual follow-up audits for OSHAS 18001:2007 certification, and renewal of ISO 14001:2015 and ISO 9001:2015 certification, the scope of certification of which has been extended to include LPG distribution and supply operations for the first time.

- ✓ Investments to extend the natural gas distribution network to a total of 7,910 km at 31 December 2020, which represents a 9.8% share of the 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 961,061. The networks distributed 27,397 GWh of energy.

- ✓ The LPG business at 31 December 2020 totalled 83,182 supply points and 396 km of LPG lines.

Operating profit amounted to Euros 89.8 million in 2020, after depreciation totalling Euros 84.3 million. Financial income/expense and other results, together with corporate income tax, gave rise to a net profit of Euros 41 million.

The regulatory scenario in 2020 included the following milestones:

- Circular 2/2020 of 9 January by the National Markets and Competition Commission, establishing natural gas balancing standards.
- Resolution of 25 March 2020 by the Secretary of State for Energy for the application of Order TEC/1259/2019 (20 December), which establishes compensation for basic underground storage and tolls and royalties associated with third-party access to gas facilities for 2020. It clarifies the values of the variable portion of pipeline transmission and distribution tolls applicable to Group 3 consumers.
- Circular 4/2020 of 31 March by the National Markets and Competition Commission, establishing the remuneration methodology for natural gas distribution for the regulatory period 2021 to 2026.
- Royal Decree-Law 11/2020 of 31 March, which adopts urgent complementary social and economic measures to tackle the Covid-19 crisis, including measures affecting the gas supply system, such as the ban on cutting off supply and allowing flexible contracting arrangements.
- The Spanish National Markets and Competition Commission's Resolution of 15 April 2020, which approves the framework contract for access to gas network installations.
- Decree 76/2020 of 9 June on administrative authorisation procedures for distribution and transmission facilities for piped gaseous fuels in the Basque Country.
- Order TED/627/2020 of 3 July, which establishes energy policy guidance for the Spanish National Markets and Competition Commission to develop Circulars in line with the Commission’s Programme for 2020.
- Circular 6/2020 of 22 July by the Spanish National Markets and Competition Commission, establishing the methodology for calculating natural gas transmission tolls, local networks and regasification.
- The Resolution of the Spanish National Markets and Competition Commission of 22 September 2020, which establishes access tolls to transmission networks, local networks and regasification from October 2020 to September 2021.
- Decree 254/2020 of 10 November on energy sustainability in the autonomous community of the Basque Country.
- Resolution of the Spanish National Markets and Competition Commission (CNMC) of 17 December 2020 establishing the adjustment to the distribution fee applicable to companies involved in distribution during the regulatory period 2021-2026.
- Royal Decree-Law 37/2020 of 22 December on urgent measures to tackle social and economic vulnerability in housing and transport.

- Royal Decree-Law 1184/2020 of 29 December establishing the methods for calculating gas system charges, the regulated fees of basic underground storage facilities, and the rates for their use.
- Order TED/1286/2020 of 29 December establishing the fees and rates for accessing basic underground storage facilities for 2021.
- Royal Decree-Law 36/2020 of 30 December approving urgent measures to modernise the public administration and execute the Recovery, Transformation and Resilience Plan.
- Quarterly resolutions of the Directorate-General for Energy Policy and Mining setting the last resort tariff.
- Monthly resolutions of the Directorate-General for Energy Policy and Mining publishing piped LPG prices.

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

5. Treasury shares

At 31 December 2020 and 2019 there are no treasury shares and none have been acquired during the year.

6. Derivative financial instruments

At 31 December 2020 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 allowed it to measure its actual exposure to uncertainty and their development. The positioning and tolerance thresholds have been updated in 2019.

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

8. Research and development activity

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.

- ✓ 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.

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

- ✓ European Gas Research Group (GERG): Attendance at various Board meetings.
- ✓ Alternative Energy Cooperative Investigation Centre Foundation "CIC energiGUNE": Member of the Board of Trustees.
- ✓ Within the SEDIGAS field, meetings of the THINK TANK working group on injecting hydrogen into gas networks.
- ✓ Actively taking part at UNE as members of the CTN GET-25 work group to develop technical specifications for renewable energy certificates of origin.
- ✓ Actively taking part at UNE as members of the CTN-181 work group on hydrogen technologies.
- ✓ AULA DE NORTEGAS: final presentation of the four projects carried out at the Engineering School in Bilbao in 2019-2020.
  - Project no. 1 - Feasibility study for a biomethane liquefaction plant.
  - Project no. 2 - Alternative uses of CO2 in the process to upgrade biomethane.
  - Project no. 3 - Operational pilot project - natural gas distribution network at the UPV campus in Leioa with 10% H2 injection.
  - Project no. 4 - Gas company project.

  Furthermore, four new projects for 2020-2021 have been promoted:

  - Project no. 1 - A study of alternatives for purifying landfill biogas to subsequently inject biomethane into the natural gas distribution network.
  - Project no. 2 - Creation of analytical tools to study the feasibility of projects based on biomethane production.
  - Project no. 3 - Design of dedicated hydrogen pipeline transport.
  - Project no. 4: Design of H2 injection positions.
  - Project no. 5 - Standard hydrogen company project.
- ✓ Developing an agreement signed with the Basque Energy Agency to drive the use of renewable gas and promote smart gas networks in the Basque Country.

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 2020 an ambitious Expansion Plan has continued to be followed as a road map for the coming years
- ✓ Develop new areas of business that are committed to new development paths and new uses of natural gas as well as new businesses that enable the Group to move forward towards clean, efficient and sustainable energy.

- ✓ 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

Since 31 December 2020, no additional significant events have taken place other than those disclosed in note 38.

AUTHORISATION FOR ISSUE OF THE ANNUAL ACCOUNTS 2020

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

Signed on original in Spanish

Mr. Jon Iñaki Alzaga Echeita (Chair)

Signed on original in Spanish

Nortegas Energía Grupo, S.L.U., represented by Mr. Mark William Mathieson (Board Member)

Signed on original in Spanish

Mr. Francisco Javier Contreras García (Board Member)

Signed on original in Spanish

Mr. Juan Ramón Arraibi Dañobeitia (Board Member)