Audit Report on Financial Statements
issued by an Independent Auditor

NORTEGAS ENERGÍA DISTRIBUCIÓN, S.A.U. AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2022

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AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

(Free 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.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of NORTEGAS ENERGÍA DISTRIBUCIÓN, S.A.U. (the parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2022, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2022 and of its 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 in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of intangible assets and property, plant and equipment

Description

As explained in Notes 7 and 8 to the accompanying consolidated financial statements, the Company carries its "Intangible assets" and its "Property, plant and equipment" at 918,123 and 1,443,143 thousand euros, respectively, at December 31, 2022.

Group management tests its goodwill for impairment annually, and checks for indications of impairment for the rest of its non-financial assets at least at every year-end. If there are indications of impairment, it estimates the recoverable amounts of those assets based on the present value of the cash flows estimated for the cash-generating units to which the potentially-impaired assets have been allocated.

Since determining the recoverable amount requires the use of complex estimates, for which management must make judgments to establish the assumptions underlying those estimates, and due to the significance of the amounts involved, we determined this to be a key audit matter.

Information on the measurement standards applied and the related disclosures are provided in Notes 3.h, 7, and 8 to the accompanying consolidated financial statements.

Our response

In relation to this area, our audit procedures have included, among others, the following:

- Understanding the process designed by Group management to determine whether there are indications of impairment and to determine the recoverable amount of the intangible and tangible assets, and assessing the design and implementation of the relevant controls in place in that process.
- Reviewing the model used by management to determine the recoverable amounts, in collaboration with our valuation specialists, addressing specifically the mathematical consistency of the model and the reasonableness of the cash flows projections and the discount and long-term growth rates modeled. As part of our review, we interviewed those in charge of developing the model and consulted recognized external sources and other available information to cross-check the data used, such as the 2023 budget and the earnings projections for the following years approved by the Group's directors.
- Reviewing the sensitivity analyses performed by Group management of the estimates made in determining recoverable amount due to changes in the key assumptions made.
- Reviewing the disclosures made in the notes to the consolidated financial statements, assessing whether they are in conformity with the applicable financial reporting framework.

Other matters

Another audit firm issued a clean audit report on the 2021 financial statements on March 25, 2022.

Other information: consolidated management report

Other information refers exclusively to the 2022 consolidated management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the consolidated management report is to assess and report on the consistency of the management report with the consolidated financial statements based on the knowledge of the Group obtained during the audit, and to assess and report on whether the content and presentation of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, the information contained in the consolidated management report is consistent with that provided in the 2022 consolidated financial statements and its content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company´s directors and the audit committee for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the parent company 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 has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements 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 audit regulations 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 the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations 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 financial statements, 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 directors.
- Conclude on the appropriateness of the 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 financial statements 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 financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 financial statements. 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 company 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 audit committee of the parent company with a statement that we have complied with relevant ethical requirements, including those related to 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 matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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

ERNST & YOUNG, S.L.

(Original signed in Spanish)

20 March 2023

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

Consolidated Annual Accounts
31 December 2022

Consolidated Directors' Report
2022

(With Auditor's Report Thereon)

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

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

Consolidated balance sheet
at 31 December 2022 and 2021

(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 2022	31 December 2021
Property, plant, and equipment	7	918,123	948,618
Goodwill	8	45,910	45,910
Other intangible assets	8	1,397,233	1,423,020
Right-of-use assets	10	1,468	1,782
Equity-accounted investees	9	866	827
Other financial assets	11 & 12	525	502
Deferred tax assets	13	-	4,105
Total non-current assets		**2,364,125**	**2,424,764**
Inventories	3 (k)	7,340	6,612
Trade and other receivables	11, 12 &14	23,685	18,143
Other financial assets	11 & 12	8,301	3,550
Current income tax assets	13	457	-
Other current assets	15	860	1,156
Cash and cash equivalents	16	38,505	163,988
Total current assets		**79,148**	**193,449**
Total assets		**2,443,273**	**2,618,213**

Equity and Liabilities	Note	31 December 2022	31 December 2021
Capital	17	100,000	100,000
Share premium	17	159,270	228,820
Reserves	17	164,090	113,069
Other shareholder contributions	17	528,144	528,144
Profit/(loss) for the period	17	40,461	51,021
Total equity		**991,965**	**1,021,054**
Capital grants	27	1,032	778
Contract liabilities	28	14,991	13,453
Provisions for liabilities and charges	25	2,058	656
Liabilities from the issue of bonds and other marketable securities	18, 19 & 21	1,120,982	1,120,330
Leases	18, 19 & 20	1,320	1,493
Other financial liabilities	18, 19 & 20	1,768	1,907
Deferred tax liabilities	13	265,060	270,348
Total non-current liabilities		**1,407,211**	**1,408,965**
Financial liabilities from the issue of bonds and other marketable securities	18, 19 & 21	7,782	150,532
Bank borrowings	18, 19 & 20	-	31
Other financial liabilities	18, 19 & 20	5,996	5,778
Leases	18,19 & 20	296	359
Trade and other payables	18, 19 & 22	19,415	19,352
Income tax liabilities	13	5,552	6,507
Other current liabilities	29	5,056	5,635
Total current liabilities		**44,097**	**188,194**
Total equity and liabilities		**2,443,273**	**2,618,213**

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 2022 and 2021

(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 2022	31 December 2021
Ordinary revenue	30	214,830	225,098
Other operating income	30	2,492	10,512
Work carried out for the Group's own assets		6,594	6,647
Supplies	30	(25,821)	(21,176)
Personnel expenses	32	(5,984)	(11,151)
Change in trade receivables and contract assets		(155)	(50)
Other expenses	31	(37,050)	(32,372)
Operating profit before depreciation/amortisation		**154,906**	**177,508**
Amortisation and depreciation	7, 8 & 10	(84,412)	(84,485)
Operating profit		**70,494**	**93,023**
Finance income	33	55	76
Finance cost	33	(18,936)	(28,087)
Share in profit for the period from investments accounted for using the equity method	9	136	124
Profit/ (loss) before tax from continuing operations		**51,749**	**65,136**
Income tax (expense)/income	13	(11,288)	(14,115)
Profit/ (loss) for the period from continuing operations		**40,461**	**51,021**
Profit/(loss) for the period		**40,461**	**51,021**
Consolidated comprehensive income for the period		**40,461**	**51,021**

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 2022 and 2021

(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 2020	**100,000**	**391,130**	**(91,773)**	**11,698**	**152,017**	**41,127**	**528,144**	**1,132,343**
Consolidated comprehensive income for the period	-	-	-	-	-	51,021	-	51,021
Distribution of profit/(loss)	-	-	-	1,737	39,390	(41,127)	-	-
Distribution of share premium	-	(162,310)	-	-	-	-	-	(162,310)
Balance at 31 December 2021	**100,000**	**228,820**	**(91,773)**	**13,435**	**191,407**	**51,021**	**528,144**	**1,021,054**
Consolidated comprehensive income for the period	-	-	-	-	-	40,461	-	40,461
Distribution of profit/(loss)	-	-	-	2,498	48,523	(51,021)	-	-
Distribution of share premium	-	(69,550)	-	-	-	-	-	(69,550)
Balance at 31 December 2022	**100,000**	**159,270**	**(91,773)**	**15,933**	**239,930**	**40,461**	**528,144**	**991,965**

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 2022 and 2021

(Expressed in thousands of Euros)

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

	Note	31.12.2022	31.12.2021
Cash flows from/(used in) operating activities			
Profit/(loss) for the period before tax		**51,749**	**65,136**
Adjustments for		**104,057**	**112,645**
Amortisation/depreciation	**7, 8 & 10**	84,412	84,485
Impairment allowances	**14**	155	50
Change in provisions	**25**	1,402	410
Grants recognised in the income statement		(454)	(369)
Gains/(losses) from disposals of fixed assets		-	182
Finance income	**33**	(55)	(76)
Finance cost	**33**	18,936	28,087
Share of profit of equity-accounted investees	**9**	(136)	(124)
Other income and expenses		(203)	-
Changes in operating assets and liabilities		**(6,541)**	**(45,767)**
Inventories		(728)	(3,213)
Trade and other receivables		(5,721)	(1,561)
Other current assets		296	(16)
Other current liabilities		(579)	(64)
Trade and other payables		191	(40,913)
Other cash flows from/(used) in operating activities		**(33,479)**	**(28,653)**
Interest paid		(18,431)	(14,901)
Dividends received	**9**	97	119
Interest received		48	69
Other amounts received/(paid)		-	(373)
Income tax paid		(15,193)	(13,567)
Cash flows from/(used in) operating activities		**115,786**	**103,361**
Cash flows from/(used in) investing activities			
Payments for investments		**(32,703)**	**(38,853)**
Intangible assets	**8**	(2,436)	(2,501)
Property, plant and equipment		(25,516)	(32,848)
Other financial assets		(4,751)	(3,504)
Proceeds from sale of investments		**31**	**1,038**
Property, plant and equipment		31	38
Other financial assets		-	1,000
Cash flows from/(used in) investing activities		**(32,672)**	**(37,815)**
Cash flows from/(used in) financing activities			
Proceeds from and payments for financial liability instruments		**(139,047)**	**133,792**
Issue		4,024	550,257
Issuance and disposal of debt	**21**	-	547,497
Capital grants and other	**27 & 28**	2,253	2,717
Other		1,771	43
Redemption and repayment of		(143,071)	(416,465)
Repayment of debt	**21**	(142,754)	(415,236)
Debt with Group companies and associates		-	(634)
Leases		(317)	(595)
Dividends and interest on other equity instruments paid		**(69,550)**	**(162,310)**
Distribution of share premium	**17**	(69,550)	(162,310)
Cash flows used in financing activities		**(208,597)**	**(28,518)**
Net increase/decrease in cash and cash equivalents		(125,483)	37,028
Cash and cash equivalents at start of period		163,988	126,960
Cash and cash equivalents at period end		**38,505**	**163,988**

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 2022, 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.

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, having received the authorisations from the corresponding bodies, Nature Gasned XXI, S.L.U. and Nortegas Energía Distribución, S.A.U. signed the merger deed, marking the merging of both companies. The merger was duly registered in the Mercantile Register. For accounting purposes, the merger was treated as a reverse acquisition whereby Nature Gasned XXI, S.L.U. was the acquirer for accounting purposes (legal acquiree) and Nortegas Energía Distribución, S.A.U. was the acquiree for accounting purposes (legal acquirer).

The Company's Sole Shareholder is Nortegas Energía Grupo, S.L.U. The Company is thus registered at the Mercantile Registry as a single shareholder company (Sociedad Unipersonal).

Regulatory framework

Details of the basic regulatory framework for the industry applicable to the Group at 31 December 2022 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 regime governing the access 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 set 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.

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.

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 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 remuneration, the Royal Decree-Law stipulates that the CNMC must approve, before 1 January 2020, the Circular containing the methodology for calculating remuneration 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 overall adjustment for the entire gas distribution sector in Spain is Euros 239 million at the end of the 2026 regulatory period. Another development introduced through the Circular is the change in remuneration period from the calendar year to the gas year, which runs from 1 October one year to 30 September the following year. As an exception, as it is the year when the change was made, the first gas year (2021) runs from 1 January 2021 to 30 September. In this respect and as explained below, in 2021 the CNMC published various resolutions recognising the provisional remuneration for the 2021 gas year and the 2022 gas year.

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, was 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). In addition to the remuneration, the CNMC also changed the reference periods for tolls from the calendar year to the gas year. Thus, the Resolution of the Spanish National Markets and Competition Commission of 22 September 2020 established 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.

In 2021 the Resolution of the Spanish National Markets and Competition Commission of 27 May 2021 was published which established access tolls to transmission networks, local networks and regasification for the 2022 gas year and afterwards the Resolution of the Spanish National Markets and Competition Commission of 19 May 2022, which establishes access tolls to transmission networks, local networks and regasification for the 2023 gas year, was approved in 2022.

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.

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.

Subsequently, Order TED/1022/2021 of 27 September regulating the procedures for the settlement of remuneration for regulated activities, charges and payments for specific purposes in the gas system, completely overhauls the gas system settlement process. In the new framework, a single settlement system has been replaced by a system for each regulated activity (storage, regasification, transmission and distribution) and another system for other system costs (MIBGAS, payment of outstanding balance of deficits, etc.).

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.

The final 2020 settlement gave an industry surplus balance of Euros 186.69 million, of which Euros 6.9 million were for Nortegas Energía Distribución, S.A.U. and Euros 4.8 million for NED España Distribución, S.A.U. For the gas year ended 30 September 2021, the definitive surplus was Euros 81 million and for the 2022 gas year the surplus is expected to be around Euros 356 million. Most of this surplus will be transferred to the final revenues for 2023 from the different activities. The approval of the 2018, 2019, 2020 and 2021 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. On 1 December 2017 the Company assigned to a financial entity the outstanding balance and accrued interest corresponding to the 2014 deficit.

The toll invoicing system, settlement and the financing of company deficits change significantly with the entry into force of Circular 6/2020 of 22 July by the Spanish National Markets and Competition Commission, establishing the methodology for calculating regasification, local network and natural gas transmission tolls, along with Order TED/1022/2021 of 27 September regulating the procedures for the settlement of remuneration for regulated activities, charges and payments for specific purposes in the gas system. In light of these changes, since 1 October 2021 distributors have moved from billing for a single item to charging for different services (transmission output, local network, other regasification costs, GTS payment, CNMC fee and charges). In addition, as explained above, the settlement system is also split into several blocks. The system for managing deficits and surpluses is also different from block to block. Deficits and surpluses in the settlement systems for transmission activities, local networks (which includes regional and secondary transmission and distribution), regasification and storage facilities will now be settled in the following year. The payment system remains unchanged from before, with the option of repaying deficits over five years and using surpluses to repay prior years' deficits early.

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

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

e) Unbundling of activities:

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

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

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

2. LPG - Liquefied Petroleum Gas

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

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

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

a) Definition of the LPG supply sector:

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

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

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

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

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

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

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

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

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

1. To possess the financial capacity to do so.

2. To possess the technical capacity to do so.

3. To have a guaranteed source of supply.

4. To have a means of storage.

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

c) Economic regime

With regard to the economic regime governing piped LPG, the current wording of article 94 of Law 34/1998 stipulates that the 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 monthly, the July review each year is particularly important as it determines the sales margin of the activity. The 12 July 2022 Resolution of the Directorate-General for Energy Policy and Mining is notable in 2022 because it establishes the new pre-tax sales tariffs for piped liquefied petroleum gases.

2. Basis of Presentation

The consolidated annual accounts have been prepared on the basis of the accounting records of Nortegas Energía Distribución, S.A.U. and subsidiaries. The consolidated annual accounts for the year ended 31 December 2022 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 expect that these consolidated annual accounts will be approved by the Sole Shareholder with no changes.

The Nortegas Group's consolidated annual accounts for 2021 were approved by shareholders at their general meeting held on 30 June 2022.

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 9 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) Basis of presentation of the consolidated annual accounts

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

(b) Comparative information

In accordance with IAS 1, for comparison purposes the information contained in these notes to the consolidated annual accounts for 2022 is presented alongside similar information for 2021, which was not part of the Group’s 2021 consolidated annual accounts.

(c) Significant accounting estimates and key assumptions and judgements when applying accounting 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 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 2022, 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) First-time application of accounting standards

The accounting policies used in the preparation of these consolidated annual accounts coincide with those used for the year ended 31 December 2021, except for the following amendments adopted by the European Union on 1 January 2022 for application in Europe:

- ✓ Amendments to IAS 37: "Onerous contracts – Cost of fulfilling a contract"
- ✓ Annual improvements to IFRS: 2018-2020 cycle
- ✓ Amendments to IAS 16: "Property, plant and equipment: Revenues prior to intended use"
- ✓ Amendments to IFRS 16: "Covid-19-related rent concessions as of 30 June 2021"

These new standards have not had an impact on the Group in 2022. In addition, the Group did not adopt any standards early.

Standards, amendments and interpretations issued that have not yet come into force

On the date on which these consolidated annual accounts were prepared, the following standards, amendments and interpretations had been issued, the effective date of which is subsequent to the years started as of 1 January 2023:

Standard, interpretation or amendment	**Date of adoption by EU**	**Date of application by EU**	**Date of application by IASB**
IFRS 17 - Insurance contracts	19 November 2021	1 January 2023	1 January 2023
IFRS 17 – Insurance contracts: first-time application of IFRS 17 and IFRS 9 – Comparative information	8 September 2022	1 January 2023	1 January 2023
Definition of accounting estimates (Amendments to IAS 8)	2 March 2022	1 January 2023	1 January 2023
Accounting policy disclosures (Amendments to IAS 1 and IFRS Practice Statement No. 2)	2 March 2022	1 January 2023	1 January 2023
Deferred taxes relating to assets and liabilities arising from a single transaction—Amendments to IAS 12	11 August 2022	1 January 2023	1 January 2023
IAS 1 - Presentation of financial statements: Classification of liabilities as current or non-current	Pending	Pending	1 January 2024

When preparing these consolidated annual accounts, the Group has not adopted the early application of any standard, interpretation or amendment that has been published but is not yet applicable. The Group however estimates that the application of these amendments would not entail significant changes to these consolidated annual accounts.

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 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 transferred excludes any payment that does not form part of the exchange for the acquired business. 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. To this end, depreciable amount is understood as acquisition cost less 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 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 capitalised at cost of acquisition plus the costs incurred to prepare them for the use the specific program.

Maintenance costs on computer software are recorded as an expense in the year in which they are incurred. Costs directly related to the production of unique and identifiable software controlled by the Group and which are likely to generate financial benefits above costs for more than one year are 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 basis	4
Patents, licences, trademarks and similar	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

The Group classifies the right-of-use asset and the lease liability under the headings Right-of-use assets, Non-current financial liabilities - Leases and Current financial liabilities - Leases in the consolidated balance sheet, respectively.

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. <u>Assets at amortised cost:</u>

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. <u>Financial assets at fair value through profit and loss</u>

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 2021, the Group derecognised Euros 8.2 million relating to assets recorded under trade and other receivables, as the conditions detailed above had been met.

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.

<u>Offsetting of financial instruments</u>

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

<u>Defined contribution plans</u>

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.

<u>Short-term employee benefits</u>

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 likely 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) Ordinary revenue recognition

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 2022 and pending settlement by the Spanish National Markets and Competition Commission (CNMC). The provisional settlement for 2022 had been published at the date these annual accounts were authorised for issue (as per the gas year criteria described above) that, as described above, gives rise to a provisional surplus of Euros 356 million. 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 remuneration to 2019) and CNMC resolutions (with remuneration as from 2020) published establish the remuneration for the coming year based on expected activity 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.

The CNMV Resolution dated 11 February 2021 revised the 2020 remuneration figure based on the information available to the Commission in October 2020. This resolution also established the provisional remuneration for the 2021 gas year, which runs from 1 January to 30 September 2021.

The resolution of 20 May 2021 by the Spanish National Markets and Competition establishes remuneration for 2023 gas year (from 1 October 2021 to 30 September 2022) for companies undertaking regulated liquefied natural gas plant, transport and natural gas distribution activities.

Subsequently, the Resolution of 19 May 2022 by the Spanish National Markets and Competition Commission, which establishes remuneration for 2023 for companies undertaking regulated liquefied natural gas plant, transport and natural gas distribution activities.

- Definitive 2020 remuneration reviews certain items to adjust them to legal rulings, but with no impact on the Group.
- Definitive gaps in remuneration for the 2021 gas year.
- Provisional gaps in remuneration for the 2022 gas year.
- The initial remuneration for the 2023 gas year, which runs from 1 October 2022 to 30 September 2023.

The definitive gas system surplus for 2021 of Euros 81 million was approved in 2022, which will be used to offset previous years of deficit. The only year with outstanding debt for the system is 2014.

Provisional settlements for the 2022 gas year show an aggregate industry surplus of around Euros 356 million.

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.

The recognition of revenue from ordinary activities outside the scope of IFRS 15 "Revenue from contracts with customers" relating to lease contracts and derivative hedging instruments is accounted for in accordance with applicable accounting standards.

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 tax payable in future periods in respect of taxable temporary differences, whereas deferred tax assets are the amounts of income tax 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), Nortegas Green Energy Solutions, S.L.U. and Berriztagas Bizkaia, S.L.U. in the year ended 31 December 2022 and in 2021. The accounts of Nortegas Green Energy Solutions, S.L.U. and Berriztagas Bixkaia, S.L.U., as is the case with those of the Sole Shareholder, have not been included in the scope of consolidation of the accompanying consolidated annual accounts.

The subsidiary NED España Distribución Gas, S.A.U. files separate taxes for the year ended 31 December 2022. As of 1 January 2023, NED España Distribución Gas, S.A.U. will be incorporated into the tax group mentioned above.

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 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) Financial 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 12 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 12 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 2022 or 2021.

5. Financial Segment Reporting

The table below contains segment information at 31 December 2022 and 2021 for each of the Group's businesses, obtained by applying the criteria described in Note 3(s).

	Thousands of Euros		
	Segments		
31.12.2022	**Natural gas**	**LPG**	**Total**
Ordinary revenue	180,978	33,852	**214,830**
Work carried out for the Group's own assets	6,297	297	**6,594**
Supplies	(3,602)	(22,219)	**(25,821)**
Personnel expenses	(5,984)	-	**(5,984)**
Depreciation of PPE expenses	(77,283)	(7,129)	**(84,412)**
Change in trade receivables and contract assets	(8)	(147)	**(155)**
Other expenses	(32,944)	(4,106)	**(37,050)**
Other income	1,905	587	**2,492**
Results from operating activities	**69,359**	**1,135**	**70,494**
Finance income (unallocated)	-	-	**55**
Finance cost (unallocated)	-	-	**(18,936)**
Income tax (unallocated)	-	-	**(11,288)**
Share in profit from investments accounted for using the equity method (unallocated)	-	-	**136**
Profit/(loss) for the year			**40,461**
Segment assets	2,313,671	129,602	**2,443,273**
Segment liabilities	1,442,767	8,541	**1,451,308**

	Thousands of Euros		
	Segments		Total
31.12.2021	**Natural gas**	**LPG**	
Ordinary revenue	194,411	30,687	**225,098**
Work carried out for the Group's own assets	6,363	284	**6,647**
Supplies	(4,200)	(16,976)	**(21,176)**
Personnel expenses	(11,151)	-	**(11,151)**
Depreciation of PPE expenses	(77,617)	(6,868)	**(84,485)**
Change in trade receivables and contract assets	14	(64)	**(50)**
Other expenses	(28,808)	(3,564)	**(32,372)**
Other income	4,537	5,975	**10,512**
Results from operating activities	**83,549**	**9,474**	**93,023**
Finance income (unallocated)	-	-	**76**
Finance cost (unallocated)	-	-	**(28,087)**
Income tax (unallocated)	-	-	**(14,115)**
Share in profit from investments accounted for using the equity method (unallocated)	-	-	**124**
Profit/(loss) for the year			**51,021**
Segment assets	2,485,648	132,565	**2,618,213**
Segment liabilities	1,485,662	111,497	**1,597,159**

The Other income heading for the LPG segment in 2021 includes revenue recognised on the basis of the agreement signed with EDP Iberia on 20 April 2017 whereby NED Suministro GLP, S.A.U. is guaranteed a minimum gross margin per supply point acquired from Repsol Butano, S.A. prior to 31 December 2016 (see Note 30).

On 19 December 2022, the Parent Company capitalised the loan granted to NED Suministro GLP, S.A.U. of Euros 100,365 thousand via a non-monetary contribution to equity and reserves.

6. Subsidiaries

Appendix I contains information about the subsidiaries included in the Group's scope of consolidation at 31 December 2022 and 2021.

There have been no changes to the scope of consolidation during 2022 and 2021.

7. Property, Plant and Equipment

Details of property, plant and equipment and movement in 2022 and 2021 are as follows:

	Thousands of Euros						
31.12.2022	**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 2021	898	5,582	1,802,637	76,879	7,300	7,864	**1,901,160**
Additions	-	-	521	2,714	21,905	250	**25,390**
Disposals	-	-	(150)	(5,838)	-	(5,961)	**(11,949)**
Transfers	-	-	20,578	564	(21,142)	-	**-**
Cost at 31 December 2022	898	5,582	1,823,586	74,319	8,063	2,153	**1,914,601**
Accumulated depreciation at 31 December 2021	-	(3,277)	(877,451)	(64,475)	-	(7,339)	**(952,542)**
Depreciation	-	(135)	(52,441)	(2,977)	-	(301)	**(55,854)**
Disposals	-	-	127	5,838	-	5,953	**11,918**
Accumulated depreciation at 31 December 2022	-	(3,412)	(929,765)	(61,614)	-	(1,687)	**(996,478)**
Carrying amount at 31 December 2022	**898**	**2,170**	**893,821**	**12,705**	**8,063**	**466**	**918,123**

	Thousands of Euros						
31.12.2021	**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 2020	898	5,582	1,775,176	81,953	5,809	7,792	**1,877,210**
Additions	-	-	5,917	1,712	24,750	72	**32,451**
Disposals	-	-	(1,078)	(7,228)	(195)	-	**(8,501)**
Transfers	-	-	22,622	442	(23,064)	-	**-**
Cost at 31 December 2021	898	5,582	1,802,637	76,879	7,300	7,864	**1,901,160**
Accumulated depreciation at 31 December 2020	-	(3,134)	(826,951)	(68,507)	-	(7,028)	**(905,620)**
Depreciation	-	(143)	(51,553)	(3,195)	-	(311)	**(55,202)**
Disposals	-	-	1,053	7,227	-	-	**8,280**
Accumulated depreciation at 31 December 2021	-	(3,277)	(877,451)	(64,475)	-	(7,339)	**(952,542)**
Carrying amount at 31 December 2021	**898**	**2,305**	**925,186**	**12,404**	**7,300**	**525**	**948,618**

The additions recognised in 2022 under the heading Under construction and advances for Euros 21,905 thousand (Euros 24,750 thousand in 2021), 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.

On 31 July 2020 a framework agreement was entered into by the subsidiary NED Suministro GLP, S.A.U. and Cepsa Comercial Petróleo, S.A.U. and subsequently extended by mutual accord on 22 December 2020. It regulates the acquisition of the liquefied petroleum gas facilities that the latter owned in Asturias, Cantabria, Burgos and the Basque Country. At year-end 2021, almost all the assets covered by the agreement changed hands for Euros 5.6 million. They are recognised as additions to “Technical installations and machinery” in 2021.

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 2,181,330 thousand (Euros 2,130,183 thousand in 2021). In addition, there is automatic insurance coverage for damages of Euros 436,266 thousand (Euros 426,037 thousand in 2021).

Fully depreciated assets

The cost of fully depreciated property, plant and equipment still in use at 31 December 2022 and 2021 is as follows:

	Thousands of Euros	
	31.12.2022	**31.12.2021**
Buildings	1,664	1,664
Technical installations and machinery	160,710	159,140
Other installations, equipment and furniture	37,700	37,815
Other property, plant and equipment	1,273	6,395
	201,347	**205,014**

Property, plant and equipment pledged as collateral

At 31 December 2022 and 2021, the Group has not pledged any fixed assets to secure bank loans.

Commitments

Investment commitments at 31 December 2022 are not significant.

8. Intangible Assets

Details of intangible assets and movement during the years ended 31 December 2022 and 2021 are as follows:

	Thousands of Euros				
31.12.2022	**Development**	**Patents, licences, trademarks and similar rights**	**Goodwill**	**Computer software**	**Total**
Cost at 31 December 2021	559	1,531,498	45,910	20,619	**1,598,586**
Additions	693	-	-	1,743	**2,436**
Disposals	-	-	-	(97)	**(97)**
Cost at 31 December 2022	1,252	1,531,498	45,910	22,265	**1,600,925**
Accumulated amortisation at 31 December 2021	-	(113,942)	-	(15,714)	**(129,656)**
Amortisation	-	(25,798)	-	(2,425)	**(28,223)**
Disposals	-	-	-	97	**97**
Accumulated amortisation at 31 December 2022	-	(139,740)	-	(18,042)	**(157,782)**
Carrying amount at 31 December 2022	**1,252**	**1,391,758**	**45,910**	**4,223**	**1,443,143**

	Thousands of Euros				
31.12.2021	**Development**	**Patents, licences, trademarks and similar rights**	**Goodwill**	**Computer software**	**Total**
Cost at 31 December 2020	-	1,531,498	45,910	19,105	**1,596,513**
Additions	559	-	-	1,942	**2,501**
Disposals	-	-	-	(428)	**(428)**
Cost at 31 December 2021	559	1,531,498	45,910	20,619	**1,598,586**
Accumulated amortisation at 31 December 2020	-	(88,144)	-	(13,139)	**(101,283)**
Amortisation	-	(25,798)	-	(3,003)	**(28,801)**
Disposals	-	-	-	428	**428**
Accumulated amortisation at 31 December 2021	-	(113,942)	-	(15,714)	**(129,656)**
Carrying amount at 31 December 2021	**559**	**1,417,556**	**45,910**	**4,905**	**1,468,930**

At 31 December 2022 and 2021 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 2022 and 2021 by Cash-Generating Unit (CGU) is as follows:

	Thousands of Euros	
	2022	**2021**
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 2022 and 2021 is as follows:

	Thousands of Euros	
	31.12.2022	**31.12.2021**
Computer software	13,788	10,614
	13,788	**10,614**

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 0.5% and 0.8%.
- Discount rate before taxes of between 5.75% and 7.66% (between 5.81% and 7.05% in 2021). 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 2022.

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 0.5% increase in the discount rate
- A 0.5% reduction in growth of supply points
- A 0.5% slowdown in the growth of demand per supply point
- A 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, no impairment has been detected at all.

9. Investments in Equity-Accounted Associates

Below is the information regarding investments in equity-accounted associates at 31 December 2022 and 2021:

Name	Registered office	Activity	Auditor	Group company	% of ownership	Amount of investment
Tolosa Gasa, S.A.	Tolosa (Gipuzkoa)	Natural gas distribution	Ernst & Young, 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 2022 and 2021 and movement are as follows:

Company	Balance at 31 December 2021	Share in profit	Dividends received	Balance at 31 December 2022
Inkolan, A.I.E.	331	43	-	374
Tolosa Gasa, S.A.	496	93	(97)	492
	827	136	(97)	866

Company	Balance at 31 December 2020	Share in profit	Dividends received	Balance at 31 December 2021
Inkolan, A.I.E.	308	23	-	331
Tolosa Gasa, S.A.	514	101	(119)	496
	822	124	(119)	827

The Reserves heading on the consolidated balance sheet includes Euros 401 thousand at 31 December 2022 (Euros 374 thousand at 31 December 2021) relating to reserves from equity-accounted associates.

Associates have not incurred contingent liabilities.

10. Right-Of-Use Assets

Movement in right-of-use assets in 2022 and 2021 arising from contracts in which the Group acts as lessee is as follows:

Thousands of Euros	Balance at 31.12.2021	Additions	Remeasurement /modification of lease liability	Disposals	Balance at 31.12.2022
Cost:					
Land	146	53	–	–	199
Buildings	88	–	23	-	111
Fleets	944	40	–	(207)	777
Other right-of-use assets	1,494	–	36	-	1,530
Total cost	**2,672**	**93**	**59**	**(207)**	**2,617**
Accumulated depreciation					
Land	(72)	(27)	–	–	(99)
Buildings	(66)	(22)	–	-	(88)
Fleets	(496)	(185)	–	76	(605)
Other right-of-use assets	(256)	(101)	–	-	(357)
Total accumulated depreciation	**(890)**	**(335)**	–	**76**	**(1,149)**
Total net cost	**1,782**	**(242)**	**59**	**(131)**	**1,468**

Thousands of Euros	Balance at 31.12.2020	Additions	Remeasurement /modification of lease liability	Disposals	Balance at 31.12.2021
Cost:					
Land	146	–	–	–	146
Buildings	1,354	–	22	(1,288)	88
Fleets	853	91	–	–	944
Other right-of-use assets	1,512	–	–	(18)	1,494
Total cost	**3,865**	**91**	**22**	**(1,306)**	**2,672**
Accumulated depreciation					
Land	(49)	(23)	–	–	(72)
Buildings	(1,070)	(284)	–	1,288	(66)
Fleets	(365)	(131)	–	–	(496)
Other right-of-use assets	(230)	(44)	–	18	(256)
Total accumulated depreciation	**(1,714)**	**(482)**	–	**1,306**	**(890)**
Total net cost	**2,151**	**(391)**	**22**	**-**	**1,782**

11. Financial Assets by Category

Classification of financial assets by category

The classification of financial assets by category and class at 31 December 2022 and 2021 is as follows:

	Thousands of Euros	
	Non-current	Current
	At amortised cost or cost	
31.12.2022	Carrying amount	
Loans and receivables		
Loans to unrelated parties		
Fixed rate	23	-
Loans to related parties (Note 34)		
Fixed rate	-	8,256
Security and other deposits	502	45
Trade receivables for sales and services rendered	-	16,637
Trade receivables	-	6,988
Other receivables	-	60
Total	525	31,986
Total financial assets	**525**	**31,986**

31.12.2021	**Thousands of Euros**	
	Non-current	**Current**
	At amortised cost or cost	
	Carrying amount	
Loans and receivables		
Loans to related parties (Note 34)		
Fixed rate	-	3,504
Security and other deposits	502	46
Trade receivables for sales and services rendered	-	11,557
Trade receivables	-	6,527
Other receivables	-	59
Total	502	21,693
Total financial assets	**502**	**21,693**

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

Net losses and gains by financial asset category at 31 December 2022 amounts to income of Euros 55 thousand corresponding to accrued interest income (Euros 76 thousand of finance income in 2021) (see Note 33).

12. Current and Non-Current Financial Assets

Details of current and non-current financial assets at 31 December 2022 and 2021 are as follows:

	Thousands of Euros			
	2022		2021	
	Non-current	Current	Non-current	Current
Security deposits paid	8	44	8	44
Loans to related parties (Note 11)	-	8,256	-	3,504
Loans to unrelated parties	23	-	-	-
Deposits given	494	1	494	2
Trade and other receivables (Note 14)	-	23,685	-	18,143
Total	525	31,986	502	21,693

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 companies NED Suministro GLP, S.A.U. (subsidiary), Nortegas Green Energy Solutions, S.L.U. and Berriztagas Bizkaia, 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.

In the year ended 31 December 2022, the subsidiary NED España Distribución Gas, S.A.U. files individual tax returns under Spanish Corporation Tax Act 27/2014 of 27 November. As of 1 January 2023, NED España Distribución Gas, S.A.U. will be incorporated into the tax group mentioned above.

Details of deferred tax assets and liabilities by type of asset and liability at 31 December 2022 and 2021 are as follows:

	Thousands of Euros	
	31.12.2022	
	Assets	Liabilities
Property, plant and equipment and intangible assets	-	259,763
Deferred income	-	5,297
Other	-	-
Total assets/liabilities	**-**	**265,060**

	Thousands of Euros	
	31.12.2021	
	Assets	Liabilities
Property, plant and equipment and intangible assets	3,653	264,750
Deferred income	-	5,598
Other	452	-
Total assets/liabilities	**4,105**	**270,348**

Details of movement in deferred taxes by type of asset and liabilities which has been recognised in tax (expense)/income deferred to 31 December 2022 and 2021 are as follows:

	Thousands of Euros	
	31.12.2022	
	Assets	Liabilities
Property, plant and equipment and intangible assets	(3,653)	(4,987)
Deferred income	-	(301)
Other	(452)	-
Total assets/liabilities	**(4,105)**	**(5,288)**

	Thousands of Euros	
	31.12.2021	
	Assets	Liabilities
Property, plant and equipment and intangible assets	(4,842)	(6,287)
Deferred income	-	(301)
Provisions for liabilities and charges	(94)	-
Other	16	-
Total assets/liabilities	**(4,920)**	**(6,588)**

Details of income tax expense for the years ended 31 December 2022 and 2021 are as follows:

	Thousands of Euros	
	31.12.2022	**31.12.2021**
Current tax		
For the period	(12,554)	(15,842)
Prior years' adjustments	83	59
	(12,471)	(15,783)
Deferred tax		
Source and reversal of temporary differences		
Property, plant and equipment and intangible assets	1,334	1,445
Provisions for liabilities and charges	-	(94)
Deferred income	301	301
Other	(452)	16
Total deferred tax	1,183	1,668
	(11,288)	**(14,115)**

A reconciliation of current tax with current income tax liabilities for the years ended 31 December 2022 and 2021 is as follows:

	Thousands of Euros	
	2022	**2021**
Current tax	12,554	15,842
Payments made during the period	(3,527)	(4,093)
Payables to Group companies due to tax effect (Note 18)	(3,932)	(5,242)
Current income tax (assets)/liabilities	5,095	6,507

Payables to Group companies due to the tax effect at 31 December 2022 includes the debt arising from the tax consolidation with Nortegas Energía Grupo, S.L.U., the Company's Sole Shareholder, and with the Group company Nortegas Green Energy Solutions, S.L.U, whose accounts are not included in the scope of consolidation of these consolidated annual accounts.

The Current income tax assets heading on the consolidated balance sheet at 31 December 2022 includes the estimate at this date of income tax receivable from the subsidiary, NED España Distribución Gas S.A.U.

The relationship between income tax expense and profit from continuing operations for the years ended 31 December 2022 and 2021 is as follows:

	Thousands of Euros	
31.12.2022	**Profit and loss**	**Total**
Income and expenses for the period before tax	51,749	51,749
Tax	(12,574)	(12,574)
Non-deductible expenses	(162)	(162)
Deductions	1,449	1,449
Prior years' adjustments	(19)	(19)
Other	18	18
Income tax (expense)/income From continuing operations	**(11,288)**	**(11,288)**

	Thousands of Euros	
31.12.2021	**Profit and loss**	**Total**
Income and expenses for the period before tax	65,136	65,136
Tax	(15,882)	(15,882)
Non-deductible expenses	(14)	(14)
Deductions	1,686	1,686
Prior years' adjustments	66	66
Other	29	28
Income tax (expense)/income From continuing operations	**(14,115)**	**(14,115)**

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

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.

In years prior to 2019, the Company obtained profits eligible for the reinvestment relief incentive. The information requirements of the abovementioned standard are set out in the notes to the 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 2022 and 2021 are as follows:

	Thousands of Euros	
	31.12.2022	**31.12.2021**
Sole shareholder (Note 34)		
Other receivables	565	743
Group companies (Note 34)		
Other receivables	(6)	-
Associates (Note 34)		
Other receivables	30	28
Unrelated parties		
Trade receivables	17,331	12,096
Other receivables	6,399	5,756
Personnel	60	59
Impairment allowances	(694)	(539)
Total	**23,685**	**18,143**

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 2022 and 2021 is as follows:

	Thousands of Euros
	31.12.2022
Balance at 31 December 2021	(539)
Charges	(155)
Reversals	-
Balance at 31 December 2022	(694)

	Thousands of Euros
	31.12.2021
Balance at 31 December 2020	(489)
Charges	(75)
Reversals	25
Balance at 31 December 2021	(539)

15. Other Current Assets

Details of other current assets are as follows:

	Thousands of Euros	
	2022	2021
Receivables from public entities		
Tax authorities - VAT receivable	615	851
Adjustments for prepayments	245	305
Total	860	1,156

16. Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

	Thousands of Euros	
	31.12.2022	31.12.2021
Cash	4	7
Banks	38,501	163,981
	38,505	163,988

The Group's Sole Shareholder has a credit facility of up to Euros 120 million (Note 20). At 31 December 2022, this amount is available in full.

17. Equity

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

Capital

At 31 December 2022 and 2021, 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 2022 and 2021, the Company's Sole Shareholder is Nortegas Energía Grupo, S.L.U. (company owned in full by Nature Investments, S.à.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.

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 2022 and 2021 is determined as follows:

	Thousands of Euros	
	2022	**2021**
Liabilities from the issue of bonds and other marketable securities (current and non-current) (Note 18)	1,128,764	1,270,862
Security deposits (current and non-current) (Note 18)	1,193	1,198
Other financial liabilities (current and non-current) (Note 18)	824	1,201
Group companies (Note 18)	5,747	5,286
Bank borrowings (Note 18)	-	31
Leases (Note 18)	1,616	1,852
Total financial debt	1,138,144	1,280,430
Less: Cash and cash equivalents	(38,505)	(163,988)
Net financial debt	1,099,639	1,116,442
EBITDA	154,906	177,508
Net financial debt/EBITDA ratio	7.10	6.29

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 2022 a non-distributable amount of Euros 17,327 thousand is included therein (Euros 18,883 thousand at 31 December 2021), 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 in the, pursuant to chapter X, title VIII of Provincial Corporation Tax Regulation 3/1996 of 26 June.

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

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

The Company's Sole Shareholder agreed a share premium distribution of Euros 10.9 million, Euros 7.4 million and Euros 47.1 million and Euros 4.2 million on 14 January 2022, 24 May 2022, 11 July 2022 and 24 November 2022, respectively.

The Company's Sole Shareholder agreed a share premium distribution of Euros 108 million, Euros 3.6 million and Euros 45.1 million and Euros 5.7 million on 18 January 2021, 24 May 2021, 05 July 2021 and 23 November 2021, 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 2022 and 2021, is as follows:

	Thousands of Euros	
	Consolidated Profit/ (loss)	
	31.12.2022	**31.12.2021**
Company		
Fully consolidated companies		
Nortegas Energía Distribución, S.A.U.	26,157	26,435
NED España Distribución Gas, S.A.U.	14,540	18,747
NED Suministro GLP, S.A.U.	(372)	5,715
	40,325	50,897
Equity-consolidated companies:		
Inkolan, A.I.E.	43	23
Tolosa Gasa, S.A.	93	101
Total	**40,461**	**51,021**

Distribution of the Parent Company's profit/loss

The proposed distribution of the Parent Company's profit for the years ended 31 December 2022 and 2021 to be submitted to the Sole Shareholder for approval is as follows:

	Euros
	2022
Basis of allocation	
Profit for the period	24,820,593.74
Distribution	
Legal reserve	2,482,059.37
Voluntary reserves	22,338,534.37
	24,820,593.74

	Euros
	2021
Basis of allocation	
Profit for the period	24,975,383.87
Distribution	
Legal reserve	2,497,538.39
Voluntary reserves	22,477,845.48
	24,975,383.87

18. Financial Liabilities by Category

Classification of financial liabilities by category

The classification of financial liabilities by category and class at 31 December 2022 and 2021 is as follows:

	Thousands of Euros					
	Non-current			Current		
	At amortised cost or cost			At amortised cost or cost		
31.12.2022	**Carrying amount**	**Fair value**	**Total**	**Carrying amount**	**Fair value**	**Total**
Debt and payables						
Bonds and other marketable securities (Note 21)						
Fixed rate	1,120,982	903,372	1,120,982	7,782	7,782	7,782
Debt with Group companies (Note 13 & 34)	-	-	-	5,747	5,747	5,747
Deposits	1,083	1,083	1,083	110	110	110
Leases	1,320	1,320	1,320	296	296	296
Other financial liabilities	685	685	685	139	139	139
Trade and other payables						
Suppliers	-	-	-	3,235	3,235	3,235
Creditors	-	-	-	11,640	11,640	11,640
Payables on fixed assets	-	-	-	4,209	4,209	4,209
Other payables	-	-	-	331	331	331
Total financial liabilities	**1,124,070**	**906,460**	**1,124,070**	**33,489**	**33,489**	**33,489**

	Thousands of Euros					
	Non-current			Current		
	At amortised cost or cost			At amortised cost or cost		
31.12.2021	**Carrying amount**	**Fair value**	**Total**	**Carrying amount**	**Fair value**	**Total**
Debt and payables						
Bonds and other marketable securities (Note 21)						
Fixed rate	1,120,330	1,150,515	1,120,330	150,532	151,445	150,532
Bank borrowings	-	-	-	31	31	31
Group companies and associates (Note 34)	-	-	-	5,286	5,286	5,286
Deposits	1,083	1,083	1,083	115	115	115
Leases	1,493	1,493	1,493	359	359	359
Other financial liabilities	824	824	824	377	377	377
Trade and other payables						
Suppliers	-	-	-	5,192	5,192	5,192
Creditors	-	-	-	9,393	9,393	9,393
Payables on fixed assets	-	-	-	4,334	4,334	4,334
Other payables	-	-	-	433	433	433
Total financial liabilities	**1,123,730**	**1,153,915**	**1,123,730**	**176,052**	**176,965**	**176,052**

At 31 December 2022, current payables to Group companies includes the debt with the Sole Shareholder and the Group company, Nortegas Green Energy Solutions, S.L.U., of Euros 3,550 thousand and Euros 382 thousand, respectively, due to current tax arising from the consolidated tax regime (31 December 2021:

Euros 3,217 thousand and Euros 2,025 thousand payable to the Sole Shareholder and Nortegas Green Energy Solutions, S.L.U., respectively) (Note 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 2022 and 2021 are as follows:

	Thousands of Euros			
	2022		2021	
	Debt and payables	**Total**	**Debt and payables**	**Total**
Finance cost measured at amortised cost (Note 33)	17,543	17,543	18,162	18,162
Other (Note 33)	1,393	1,393	9,925	9,925
Net gains/(losses) in profit and loss	**18,936**	**18,936**	**28,087**	**28,087**
Total	**18,936**	**18,936**	**28,087**	**28,087**

19. Current and Non-Current Financial Liabilities

Details of current and non-current financial liabilities at 31 December 2022 and 2021 are as follows:

	Thousands of Euros			
	2022		2021	
	Non-current	**Current**	**Non-current**	**Current**
Bonds and other marketable securities (Note 21)	1,120,982	7,782	1,120,330	150,532
Bank borrowings	-	-	-	31
Group companies and associates (Note 20 and 34)	-	5,747	-	5,286
Security deposits received (Note 20)	1,083	110	1,083	115
Other financial liabilities (Note 20)	685	139	824	377
Leases (Note 21.2)	1,320	296	1,493	359
Trade and other payables (Note 22)	-	19,415	-	19,352
Total	**1,124,070**	**33,489**	**1,123,730**	**176,052**

20. Financial Liabilities by Debt

Details of financial liabilities by debt are as follows:

	Thousands of Euros			
	2022		2021	
	Non-current	Current	Non-current	Current
Related				
Debt (Note 34)	-	5,747	-	5,286
Unrelated parties				
Bank borrowings	-	-	-	31
Other debt	685	139	824	377
Leases	1,320	296	1,493	359
Security and other deposits received	1,083	110	1,083	115
Total	**3,088**	**6,292**	**3,400**	**6,168**

At 31 December 2022, current debt with related parties mainly includes the debt with the Sole Shareholder and the Group company, Green Energy Solutions, S.L.U., due to current tax arising from the consolidated tax regime amounting to Euros 3,932 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

On 28 January 2021 the Nortegas Group refinanced the Euros 100 million credit facility with Nortegas Energía Distribución, S.A.U., increasing it to Euros 120 million and transferring it to its Sole Shareholder Nortegas Energía Grupo, S.L.U. to be able to finance all this company's subsidiaries.

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 23 November 2022, the rating agency S&P issued a new credit report on Nortegas Energía Distribución, S.A.U. as issuer of the bond programme, maintaining the investment grade rating of BBB- with a stable outlook. A bbb- rating has also been issued for the group to which it belongs (the parent of which is Nature Investments, S.a.r.l.) and bbb for Nortegas Energía Distribución, S.A.U. and subsidiaries.

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 was an issue of Euros 550 million, which matured on 28 September 2022. The issue price was 100% and the annual interest rate was 0.918% payable annually on 28 September.

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

On 21 January 2021, the Group issued bonds 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 of 28 September 2017 maturing on 28 September 2022. This offer expired on 27 January and a total of Euros 407,438 thousand was bought back. This transaction had a Euros 8.6 million impact on the Group's finance cost in 2021.

On 7 July 2022, the Group redeemed early the bonds relating to its first issue on 28 September 2017 and maturing on 28 September 2022 for Euros 142,562 thousand.

At 31 December 2022 accrued interest payable amounts to Euros 7,782 thousand (Euros 8,122 thousand in 2021) 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 vehicles and LPG facilities. Movement in lease liabilities in 2022 and 2021 is as follows:

Thousands of Euros	**2022**	**2021**
Opening balance	**1,852**	**2,258**
New lease contracts	93	91
Cancellation of lease contracts	(131)	-
Interest expense	60	76
Principal paid	(317)	(595)
Remeasurement /modification of lease liability	59	22
Closing balance	**1,616**	**1,852**

Details of lease liabilities by maturity at 31 December 2022 are as follows:

Thousands of Euros	**31.12.2022**
2023	301
2024	195
2025	175
2026	152
2027	150
From 2028 onwards	922
Total	**1,895**
Finance cost	279
Present value of payments	1,616
Total	**1,895**

Details of lease liabilities by maturity at 31 December 2021 are as follows:

Thousands of Euros	**31.12.2021**
2022	363
2023	265
2024	237
2025	176
2026	140
From 2027 onwards	975
Total	**2,156**
Finance cost	304
Present value of payments	1,852
Total	**2,156**

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 2022 and 2021, is as follows:

		Cash flows					
Thousands of Euros (2022)	**Balance at 31.12.2021**	**Issue**	**Reimbursements**	**Interest paid**	**Accrued interest**	**Non-redeemable expenses and other**	**Balance at 31.12.2022**
Bonds	1,262,740	-	(142,562)	-	804	-	1,120,982
Debt with Group companies and associates	5,286	1,771	-	-	-	(1,310)	5,747
Other financing operations	2,399	-	(192)	-	12	(202)	2,017
Leases (Note 21.2)	1,852	-	(317)	-	60	21	1,616
Accrued interest payable	8,153	-	-	(18,431)	18,060	-	7,782
Total financial debt-loans and other	**1,280,430**	**1,771**	**(143,071)**	**(18,431)**	**18,936**	**(1,491)**	**1,138,144**

Thousands of Euros (2021)	**Balance at 31.12.2020**	**Issue**	**Reimbursements**	**Interest paid**	**Accrued interest**	**Non-redeemable expenses and other**	**Balance at 31.12.2021**
Bonds	1,120,835	547,497	(414,987)	-	9,395	-	1,262,740
Debt with Group companies and associates	799	43	(634)	-	-	5,078	5,286
Other financing operations	2,632	-	(249)	-	16	-	2,399
Leases (Note 21.2)	2,258	-	(595)	-	76	113	1,852
Accrued interest payable	4,454	-	-	(14,901)	18,600	-	8,153
Total financial debt-loans and other	**1,130,978**	**547,540**	**(416,465)**	**(14,901)**	**28,087**	**5,191**	**1,280,430**

The redemption of bonds and debentures in 2022 amounting to Euros 142,562 thousand relates to the early redemption of bonds maturing on 28 September 2022 (Note 21.1).

The redemption of bonds and debentures in 2021 amounting to Euros 414,987 thousand includes the payment of Euros 7.5 million in costs associated with the repurchase of bonds maturing in 2022 (Note 21.1).

22. Trade and Other Payables

Details of trade and other payables at 31 December 2022 and 2021 are as follows:

	Thousands of Euros	
	Current	
	31.12.2022	31.12.2021
Related parties (Note 34)		
Payables	3,214	2,178
Unrelated parties		
Suppliers	3,235	5,192
Creditors	8,426	7,215
Suppliers of fixed assets	4,209	4,334
Personnel	331	433
Total	**19,415**	**19,352**

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

Unrelated parties include Euros 3,085 thousand for gas sector inter-company settlements, reflecting the estimate at 31 December 2022 (Euros 2,381 thousand in 2021), 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 amount recorded under creditors inter-company settlement debts in the gas sector is net of collection rights (Note 3.i)).

The Group has estimated its settlement at 31 December 2022 for the 2022 and 2021 gas years 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 2022, calculated based on the distribution of total authorised fixed remuneration for 2022, 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 2022 and 2021 is as follows:

	Days	
	31.12.2022	31.12.2021
Average supplier payment period	18.43	23.71
Transactions paid ratio	18.11	23.90
Transactions payable ratio	23.52	21.23

	Amount in Euros	
	31.12.2022	31.12.2021
Total payments made	79,711,157	66,469,585
Total payments outstanding	5,057,389	5,012,876

The monetary amount and number of invoices paid in a period that is shorter than the maximum period set out in the late payment regulations in 2022 totals Euros 78,030 thousand and 15,939 invoices, respectively.

The percentage they represent of total monetary payments to suppliers and of the total number of invoices is 97,9% and 97,9%, respectively.

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 2022 and 2021:

	31.12.2022				
	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	23,675	-	10	-	23,685
Other financial assets	8,256	-	45	-	8,301
Total assets	31,931	-	55	-	31,986

	31.12.2021				
	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	17,872	2	264	5	18,143
Other financial assets	3,504	-	46	-	3,550
Total assets	21,376	2	310	5	21,693

(iii) Liquidity Risk

At 31 December 2022, the Group has positive working capital of Euros 35,051 thousand (Euros 5,255 thousand in 2021). 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 2022 and 2021. The tables below reflect the analysis of financial liabilities by contracted maturity.

	31.12.2022				
	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 payables	19,031	118	266	-	19,415
Liabilities from the issue of bonds and other marketable securities					
Principal	-	-	-	1,120,982	1,120,982
Interest	4,692	-	3,090	-	7,782
Total liabilities	23,723	118	3,356	1,120,982	1,148,179

	31.12.2021				
	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	31	-	-	-	31
Trade and other payables	18,673	414	265	-	19,352
Liabilities from the issue of bonds and other marketable securities					
Principal	-	-	142,410	1,120,330	1,262,740
Interest	4,691	-	3,431	-	8,122
Total liabilities	23,395	414	146,106	1,120,330	1,290,245

25. Provisions

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

	Thousands of Euros	
	Non-current	
	31.12.2022	**31.12.2021**
Other personnel provisions	211	211
Other liabilities	1,847	445
Total	**2,058**	**656**

Movement in provisions for the years ended 31 December 2022 and 2021 is as follows:

	Thousands of Euros		
	Other personnel provisions (Note 32)	Other liabilities	Total
At 31 December 2021	211	445	656
Charges	-	1,402	1,402
At 31 December 2022	211	1,847	2,058

	Thousands of Euros		
	Other personnel provisions (Note 32)	Other liabilities	Total
At 31 December 2020	603	19	622
Charges	-	426	426
Reversals	(17)	-	(17)
Use	(375)	-	(375)
At 31 December 2021	211	445	656

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 2022.

Guarantees

The total amount of guarantees extended to third parties (councils and other public entities) at 31 December 2022 amounts to Euros 5,298 thousand (Euros 5,715 thousand in 2021), whilst guarantees received from suppliers amount to Euros 1,400 thousand (Euros 1,592 thousand in 2021).

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

26. Environmental Information

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

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

Throughout 2022, work has continued on the environmental monitoring of gas distribution works regarding aspects such as waste management, impact on soils, watercourses and protected areas, with no significant incidents having been detected.

In order to have available a more complete and ambitious risk map than that required by the Environmental Liability Law, in 2022 an environmental risk analysis was voluntarily carried out at the LNG plant in Gibaja and the LPG plants in Aramaio and Izarra with satisfactory results.

In 2022 a scope 1, 2 and 3 carbon footprint calculation was made. Analysis and detailed work will continue on the footprint in future years. Furthermore, in June 2022 the Company successfully passed the ISO 14064:2019 greenhouse gas audit, leading it to register its carbon footprint with the Spanish Climate Change Office on 28 December.

Following an independent audit in October 2022 and the satisfactory outcome thereof, the Group's quality and environmental management systems have also been recertified as being UNE-EN-ISO 9001:2015 and UNE-EN-ISO-14001:2015 compliant.

The Group received no environmental grants or income from activities related to the environment in the year ended 31 December 2022.

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
	31.12.2022
Opening balance	778
Additions	291
Amounts transferred to the income statement	(37)
Closing balance	**1,032**

	Thousands of Euros
	31.12.2021
Opening balance	565
Additions	245
Amounts transferred to the income statement	(32)
Closing balance	**778**

28. Contract Liabilities

Movement in contract liabilities is as follows:

	Thousands of Euros	
	31.12.2022	**31.12.2021**
Opening balance	13,453	11,327
Additions	1,962	2,472
Disposals	-	(2)
Amounts transferred to the income statement	(424)	(344)
Closing balance	**14,991**	**13,453**

Contract liabilities include connection and extension activities.

29. Other Current Liabilities

Details of other current liabilities are as follows:

	Thousands of Euros	
	31.12.2022	**31.12.2021**
Public entities, other		
Tax Authorities-Withholdings payable	1,322	1,455
Social Security contributions	94	111
Public charges, taxes and councils	3,030	3,121
Other	610	948
Total	**5,056**	**5,635**

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.

30. Revenue and Supplies

Details of revenue by category are as follows:

	Thousands of Euros	
	Domestic	
	2022	**2021**
Revenue from regulated propane gas activities	30,829	28,124
Revenue from regulated natural gas activities	158,792	172,792
Other regulated revenue	23,104	22,666
Other unregulated revenue	2,105	1,516
	214,830	**225,098**

Regulated activity revenue mainly relates to the amount accrued for regulated remuneration to gas distributors and also to the sale of propane gas.

Other regulated revenue mainly includes income from periodic inspections and meter rentals.

Details of supplies are as follows:

	Thousands of Euros	
	2022	**2021**
Merchandise used		
Purchases	22,007	19,347
Change in inventories	(728)	(3,214)
	21,279	16,133
Other purchases and external expenses		
Subcontracted work	4,195	4,475
Other	347	568
	4,542	5,043
	25,821	**21,176**

Subcontracted work at 31 December 2022 and 2021 relates mainly to the periodic inspections outsourced to third parties.

Other operating income

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 would be 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 would have to 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.

Similarly, on 20 April 2017 a contract was signed whereby EDP Iberia guaranteed 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 covered the effect of a regulatory change relating to this matter in the years 2018 to 2021.

Both contracts expired on 31 December 2021.

Other operating income in 2021 includes Euros 3,985 thousand relating to the income recorded based on the contract signed by Nortegas Energía Distribución, S.A.U with EDP Iberia whereby compensation in the event of changes in the regulations affecting the remuneration of gas meter rentals was guaranteed.

In addition, in 2021 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	
	2022	**2021**
Fees	177	148
Repairs and maintenance	2,930	2,901
Independent professional services	387	437
Services rendered to Group companies (Note 34)	24,620	17,797
Insurance premiums	641	622
Utilities	287	191
Other services	3,012	3,785
Tax	3,260	4,865
Other expenses	1,736	1,626
	37,050	**32,372**

32. Personnel Expenses

Details of personnel expenses are as follows:

	Thousands of Euros	
	2022	**2021**
Wages and salaries	4,131	7,325
Other employee benefit expenses and taxes	1,467	2,136
Termination benefits	232	1,442
Allocation to/(reversal of) personnel provisions (Note 25)	-	(17)
Contributions to other long-term benefits	154	265
	5,984	**11,151**

33. Financial Income and Expenses

Details of financial income and expense are as follows:

	Thousands of Euros	
	2022	**2021**
Finance income on loans to Group companies (Notes 11 and 34)	39	4
Finance income (Note 11)	16	72
Interest expense on debts, Group companies (Notes 18 and 34)	(17)	-
Interest expense on debts, Banks (Note 18)	-	(22)
Interest expense on debts, bond issuance (Note 18)	(17,526)	(18,140)
Other financial costs (Note 18)	(1,393)	(9,925)
Net financial result	**(18,881)**	**(28,011)**

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 2022 and 2021 are as follows:

	Thousands of Euros			
31.12.2022	**Sole Shareholder**	**Group companies**	**Associates**	**Total**
Non-current investments in Group companies and associates				
Equity-accounted investees (Note 9)	-	-	866	**866**
Total non-current assets	-	-	866	**866**
Current investments in Group companies and associates				
Loans to companies (Note 11)	-	8,256	-	**8,256**
Trade and other receivables				
Other receivables (Note 14)	565	(6)	30	**589**
Total current assets	565	8,250	30	**8,845**
Total assets	565	8,250	896	**9,711**
Current debt				
Other financial liabilities (Note 20)	5,365	382	-	**5,747**
Payables, Group companies and associates (Note 22)	3,156	58	-	**3,214**
Total current liabilities	8,521	440	-	**8,961**
Total liabilities	8,521	440	-	**8,961**

	Thousands of Euros			
31.12.2021	**Sole Shareholder**	**Group companies**	**Associates**	**Total**
Non-current investments in Group companies and associates				
Equity-accounted investees (Note 9)	-	-	827	**827**
Total non-current assets	-	-	827	**827**
Current investments in Group companies and associates				
Loans to companies (Note 11)	-	3,504	-	**3,504**
Trade and other receivables				
Other receivables (Note 14)	743	-	28	**771**
Total current assets	743	3,504	28	**4,275**
Total assets	743	3,504	855	**5,102**
Current debt				
Other financial liabilities (Note 20)	3,261	2,025	-	**5,286**
Payables, Group companies and associates (Note 22)	2,130	48	-	**2,178**
Total current liabilities	5,391	2,073	-	**7,464**
Total liabilities	5,391	2,073	-	**7,464**

Group transactions with related parties

Group transactions with related parties at 31 December 2022 and 2021 are as follows:

	Thousands of Euros			
31.12.2022	**Sole Shareholder**	**Group companies**	**Associates**	**Total**
Income				
Other services rendered	-	28	321	**349**
Other operating income	-	-	-	**-**
Financial instruments				
Finance income (Note 33)	-	39	-	**39**
Share in the profit of investments accounted for using the equity method (Note 9)	-	-	136	**136**
Total income	-	67	457	**524**
Expenses				
Other expenses (Note 31)	24,147	473	-	**24,620**
Financial instruments				
Finance cost (Note 33)	17	-	-	**17**
Total expenses	24,164	473	-	**24,637**

	Thousands of Euros			
31.12.2021	**Sole Shareholder**	**Group companies**	**Associates**	**Total**
Income				
Other services rendered	-	37	304	**341**
Other operating income	26	-	-	**26**
Financial instruments				
Finance income (Note 33)	-	4	-	**4**
Share in the profit of investments accounted for using the equity method (Note 9)	-	-	124	**124**
Total income	26	41	428	**495**
Expenses				
Other expenses (Note 31)	17,379	418	-	**17,797**
Total expenses	17,379	418	-	**17,797**

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

In the years ended 31 December 2022 and 2021, the directors have not accrued remuneration. The Parent company does not have any employees in its workforce that could be considered senior management in 2022, as these functions are performed via its sole shareholder, Nortegas Energía Grupo, S.L.U. In 2021, members of senior management received remuneration of Euros 660 thousand.

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 has been paid by the sole shareholder, Nortegas Energía Grupo, S.L.U., in 2022. In 2021, the insurance premium was Euros 8 thousand.

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 2022 and 2021, 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, other than Mr Mark Willian 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 2022 and 2021 is as follows:

	Average number of employees	
	31.12.2022	**31.12.2021**
Directors	3	4
Managers	11	18
Other	57	95
	71	**117**

At 31 December 2022, the Group has no employees with a disability rating of 33% or higher (or equivalent local rating) (none at 31 December 2021).

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 2022 and 2021 the distribution by gender of Group personnel and the directors is as follows:

	Number			
	2022		**2021**	
	Women	**Men**	**Women**	**Men**
Board members	-	4	-	4
Directors	1	2	-	3
Managers	5	6	5	8
Other	10	48	10	51
	16	**60**	**15**	**66**

In October 2021, 49 employees from Nortegas Energía Distribución, S.A.U. and NED España Distribución de Gas, S.A.U. were transferred to Nortegas Energía Grupo, S.L.U.

36. Audit Fees

The fees charged by the auditors of the Group’s annual accounts (Ernst & Young, S.L. in 2022 and KPMG Auditores, S.L. and other entities affiliated with KPMG International in 2021) for the years ended 31 December 2022 and 2021 are as follows:

	Thousands of Euros	
	31.12.2022	**31.12.2021**
Audit services, consolidated annual accounts	49	46
Audit services, individual annual accounts for the Company	35	33
Audit services, annual accounts of subsidiaries	48	45
Other audit services	2	99
	134	**223**

37. Events After the Reporting Period

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 2022.

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

Details of subsidiaries

31 December 2022

(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 base
NED España Distribución Gas, S.A.U.	Bilbao (Vizcaya)	Natural gas distribution	Ernst & Young, 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	Ernst & Young, S.L.	Nortegas Energía Distribución, S.A.U.	100%	100%	Fully consolidated
Tolosa Gasa, S.A.	Tolosa (Guipuzkoa)	Natural gas distribution	Ernst & Young, 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 2021

Name	Registered address	Activity	Auditor	Company holding investment	% of Ownership	% of voting rights	Consolidation base
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

Consolidated Directors' Report

31 December 2022

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

1. Most significant milestones in 2022

2022 has been influenced by the international macroeconomic and energy context and stands out from other years for geopolitical conflict, which has had a direct impact on inflation and gas prices. The warmer than usual weather experienced consistently throughout the year has also had an impact on the usage patterns of end consumers. Despite this unfavourable backdrop, Nortegas' capacity to achieve significant growth in business activity and investment is noteworthy. The Group has taken on over 16,500 new supply points to transport a total of 24.6 TWh via its networks and to reach gross investment levels of almost Euros 28 million.

From a financial perspective, this context was mirrored by a 13% drop in EBITDA to Euros 154.9 million. Part of this drop is the result of an adjustment to regulated revenue of Euros 4.7 million caused by the regulatory changes announced in Circular 4/2020.

In spite of all this, in 2022 intensive work has continued on developing the company's Strategic Plan in order to position our infrastructures at the service of the energy transition through the use of renewable gases. We are investing heavily in several R&D programmes, including the H2SAREA project, whose objective is to be able to distribute a mixture of natural gas and hydrogen using our networks. In 2022, the Group also made progress in the construction of a biomethane plant. This project is an example of our strategy to guarantee the long-term life of our infrastructures, ensuring energy independence, reducing emissions through the circular economy and impacting socially via job creation, among other things. We are similarly continuing to make progress on the Group’s digitalisation and, in particular, our infrastructures.

In line with the Group's objective to contribute to decarbonisation and the fulfilment of the goals adopted by the Paris Agreement and the Sustainable Development Goals (SDGs) and to have a positive impact on the communities in which it operates, during 2022 the Company has made progress on developing certain sustainability objectives that have served as the basis for a loan classified as sustainable.

In terms of legislation, the challenge facing Nortegas has centred on emphasising the use of gas, both conventional and renewable, as an energy source in the future low-carbon economy.

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 a network measuring 8,477 km distributed throughout the Basque Country, Asturias and Cantabria. It employs 72 professionals at 31 December 2022 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 2022 it has more than 1 million natural gas and LPG supply points, is present in 396 municipalities, of which 225 are supplied with natural gas and the rest with LPG.

	2022	2021	2020	2019	CAGR (2019-2022) (1)
Connection points	**1,064,017**	**1,056,879**	**1,044,243**	**1,035,062**	1%
Natural gas	974,919	968,233	961,061	952,263	
Natural gas (NG)<4 bar	974,237	967,549	960,392	951,595	
Natural gas (NG)>4 bar	682	684	669	668	
LPG	89,098	88,646	83,182	82,799	
Energy distributed NG+LPG (GWh)	**24,587**	**30,481**	**27,764**	**31,967**	-8%
Energy distributed (NG) (GWh)	24,210	30,077	27,397	31,588	
Energy distributed (LPG) (GWh)	377	404	367	379	
Network length (NG+LPG) (Km)	**8,477**	**8,435**	**8,306**	**8,241**	1%
Km NG	7,985	7,956	7,910	7,860	
Km LPG	492	479	396	381	

Note 1: Compound annual growth rate from 2019 to 2022

Investments have been made to extend the natural gas distribution network to a total of 7,985 km at 31 December 2022, which represents a 9.9% 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 974,919. The networks distributed 24,210 Gwh of energy. The impact of the events described above was felt and this figure stands despite the network extension and increased supply points introduced this year as well.

The LPG business at 31 December 2022 totalled 89,098 supply points and 492 km of LPG lines.

3. Analysis of 2022 results

The current market situation and the adverse weather conditions in 2022 have led to consolidated EBITDA (revenue before depreciation and amortisation) recognised by Nortegas in 2022 amounting to Euros 154.9 million, compared to Euros 177.5 million in 2021, down 13% on the previous year.

Nortegas' consolidated revenues in 2022 totalled Euros 214.8 million compared to Euros 225.1 million in 2021.

Operating profit amounted to Euros 70.5 million in 2022, after depreciation/amortisation totalling Euros 84.4 million. The financial result and other profit/(loss), together with corporate income tax, gave rise to a net profit of Euros 40.5 million.

Details by business segment of the investments made by Nortegas are broken down below. In 2022 there has been a decrease of 21% compared to the previous year (6% less excluding the purchase of LPG supply points from Cepsa for Euros 5.6 million in 2021). In 2022, there was a 5% reduction in investment in the NG segment compared to 2021.

Gross investments (millions of Euros)	2022	2021	2020
Natural gas	25.5	26.7	26.4
LPG	2.3	8.2	1.8
TOTAL	**27.8**	**34.9**	**28.2**

4. Most significant events in 2022

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:

- ✓ On 23 December 2022, after satisfactory completion of the hydrogen pipeline reception tests and the delivery point (regulation and metering stations), and in the presence of industry, the Territorial Delegation of Bizkaia issued the final commissioning certificate for the installations at the hydrogen distribution network called the "Basque Hydrogen Corridor - Phase 1 (Petronor refinery - Abanto Technology Park)", in the municipal area of Abanto-Ciérvana.

- ✓ On 30 December 2022, an addendum was processed at the Bizkaia Industrial Territorial Delegation to increase hydrogen pipeline pressure to 30 bars, a pressure compatible with the pressure generated by the electrolyser located at Petronor. To do this, the installation has been designed and tests have been carried out, in agreement with the Industrial Delegation and in accordance with the request made by customers who will use hydrogen from the distribution network, including a hydrogen plant, where the supply pressure is key.

- ✓ A new application has been received to connect a new hydrogen customer at the Abanto industrial estate. The customer is a data centre wanting to install a hydrogen fuel cell as an emergency backup system.

- ✓ Meetings have been held with European companies in the sector and methanation technicians, both biological and physico-chemical, with a view to seeking ways of working together to make use of the CO2 obtained when upgrading the biogas at the biomethane production plants.

- ✓ All modules on the digitisation platform for the construction process in SAP FIORI are in production.

- ✓ The regulatory requirement from the five area offices to visit all equipment for the 2022 regular inspection campaign by the end of 2022 has been met.

- ✓ Investments has been made in modification projects to replace metal gas pipes, along with network improvements to boost network quality and supply security.

- ✓ Opportunities to expand the natural gas and LPG network have been taken.

- ✓ The entire Scheduled Preventive Maintenance Plan has been executed.

- ✓ The CNMC Resolution 11/10/2022 setting out the technical standards for managing the gas system relating to programming, appointments, distribution, balances, management and use of international connections and self-consumption has been analysed. No impact on current operations has been identified.

- ✓ No accidents involving the Group’s workforce were reported during the year for the third year running.

Operations-side milestones:

- ✓ 237 GWh of new business in the industrial and tertiary segment between new connections and expansions of existing supplies.
- ✓ In the residential segment, 15,353 new natural gas points and 1,012 LPG points connected.
- ✓ A new municipal area has been supplied with LPG (Cerredo in Asturias).
- ✓ Expansion of traditional channel of partner installers, with 72 new members. As a result, 80% of new customers in the tractionable market come through this channel.
- ✓ Development of the online channel resulting in 1,804 leads through Facebook, LinkedIn, Instagram and Google Ads, with an increase of 18% compared with 2021.
- ✓ Some 10,522 customers have now contracted Nortegas' A PUNTO LPG maintenance service launched in 2020. This means 12% of the market share has been won in the space of two years.
- ✓ The external audits of ISO 45001:2018 Occupational Health and Safety Management System and ISO 14001:2015 and ISO 9001:2015 Environmental and Quality Management Systems, respectively, were completed satisfactorily. Their certification scope covers both the natural gas distribution activity and the LPG distribution and supply activity.
- ✓ The Preventive Safety Observations programme has been extended to all Group employees to embed a preventive culture, and the safety inspections carried out have met the targets set.

The regulatory scenario in 2022 has been impacted by the following published regulatory texts:

- ✓ National Climate Change Adaptation Plan: Order TED/132/2022 of 21 February, adopting the first work programme within the National Climate Change Adaptation Plan 2021-2030.
- ✓ Guarantees of origin:
  - Royal Decree 376/2022 of 17 May, regulating the criteria for sustainability and reduction of greenhouse gas emissions from biofuels, bioliquids and biomass fuels, as well as the system that guarantees the origin of renewable gases.
  - Order TED/1026/2022 of 28 October, approving the procedure for managing the guarantees of origin system for gas from renewable sources.
- ✓ Global Ratio Index: The Spanish National Markets and Competition Commission's Resolution of 5 May 2022, establishing the value of the 2022 Global Ratio Index for companies carrying out electricity transmission and distribution activities, and natural gas transmission, regasification, underground storage and distribution activities.
- ✓ Access tolls: The Resolution of the Spanish National Markets and Competition Commission of 19 May 2022, which establishes access tolls to transmission networks, local networks and regasification for the 2023 gas year.
- ✓ CNMC remuneration resolution: Resolution of 19 May 2022 by the Spanish National Markets and Competition Commission, which establishes remuneration for 2023 for companies undertaking regulated liquefied natural gas plant, transport and natural gas distribution activities.
- ✓ Underground storage and charges: Order TED/929/2022 of 27 September, establishing the gas system charges and remuneration and fees for basic underground storage in 2023.

- ✓ Building renovations: Law 10/2022 of 14 June on urgent measures to boost building renovation activity within the context of the Recovery, Transformation and Resilience Plan.

- ✓ European funds

  - Resolution of 16 February 2022 by the Director General of the public business entity (E.P.E.), the Institute for Diversification and Energy Savings (IDAE), which stipulates the first call for applications for the incentives programme for pioneering and unique renewable hydrogen projects (H2 PIONEROS Programme) within the framework of the Recovery, Transformation and Resilience Plan.

  - Resolution of 18 February 2022 by the President of the public business entity (E.P.E.), the Institute for Diversification and Energy Savings (IDAE), approving the first call to the "incentive programme 4: basic-fundamental research challenges, innovative pilots and training in key enabling technologies" within the value chain, as part of the incentive programmes for innovative value chains and renewable hydrogen expertise within the framework of the Recovery, Transformation and Resilience Plan.

  - Order TED/1444/2021 of 22 December, approving the rules for allocating grants through the incentives programme for innovative value chains and renewable hydrogen expertise as part of the Recovery, Transformation and Resilience Plan.

  - Order TED/706/2022 of 21 July, approving the rules and incentive programmes for allocating grants to unique biogas installation projects within the Recovery, Transformation and Resilience Plan.

  - Resolution of 27 July 2022 by the Board of Directors of the public business entity (E.P.E.), the Institute for Diversification and Energy Savings (IDAE), M.P., formalising the first call for incentive programmes for heating and cooling network projects using renewable energy sources, within the framework of the Recovery, Transformation and Resilience Plan.

- ✓ Technical management regulations: Resolution of 10 November 2022 by the Spanish National Markets and Competition Commission, establishing the technical management regulations for the gas system relating to scheduling, appointments, allocations, balances, the management and use of international connections and self-consumption.

- ✓ Urgent measures to promote supply security and maintain prices.

  - Royal Decree-Law 6/2022 of 29 March, adopting urgent measures within the framework of the National Plan to respond to the economic and social consequences of the conflict in Ukraine, including provisions for renewable gas connections to the gas system and isolated renewable gas pipelines.

  - Royal Decree-Law 10/2022 of 13 May, establishing a temporary production cost adjustment mechanism to reduce the price of electricity on the wholesale market.

  - Royal Decree-Law 11/2022 of 25 June, adopting and extending certain measures to respond to the economic and social consequences of the conflict in Ukraine, to address situations of social and economic vulnerability, and for the economic and social recovery of the island of La Palma. Temporarily extends the limitations on price increases and the impossibility of cutting off the natural gas supply to vulnerable consumers.

- Royal Decree-Law 14/2022 of 1 August on economic sustainability measures in the field of transport, study grants and assistance, as well as energy saving and efficiency measures and means of reducing energy dependence on natural gas. It exempts modifications of positions to adapt them to the injection of renewable gases from administrative authorisation and detailed project approval and gives the CNMC the mandate to develop a procedure for connecting production plants and to establish transitional periods.

- Royal Decree-Law 17/2022 of 20 September, adopting urgent measures in the field of energy, in applying the remuneration system for cogeneration facilities and temporarily reducing the VAT rate applicable to deliveries, imports and intra-community acquisitions of certain fuels. It extends the Iberian price mechanism to cogeneration plants and reduces VAT to 5% on natural gas supplies until 31 December 2022.

- Royal Decree-Law 18/2022 of 18 October, approving measures to reinforce energy consumer protection and to help reduce natural gas consumption by applying the "*Plan + seguridad para tu energía (+SE)*" plan, as well as measures regarding the remuneration of public sector staff and the protection of temporary agricultural workers affected by the drought. It sets out several measures in the gas sector, including the following:

  - It extends the growth limit to 15% of the raw material cost using the TUR (last resort tariff) until December 2023.

  - It creates a new TUR for neighbourhood communities.

  - It increases the minimum benefit amount per beneficiary of the heating subsidy.

  - It establishes the Statement of Public Utility for direct lines connecting renewable gas production plants for injection into the gas system.

  - It approves the introduction of smart natural gas meters for all customers who use less than 50,000 KWh per year.

- Royal Decree-Law 20/2022 of 27 December on measures to respond to the economic and social consequences of the conflict in Ukraine and to support the reconstruction of the island of La Palma and other vulnerable situations.

  - It extends the 5% VAT reduction in all sections of natural gas supply invoices up until 31 December 2023.

  - It extends the prohibitions on cutting off vulnerable customers' gas supply until 2023.

  - It extends the contracting flexibility measures allowing for greater choice of output and toll changes until 2023.

✓ It establishes subsidies in 2023 for gas-intensive industries amounting to Euros 450 million.

✓ Periodic regulations:

- 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.

As shown in Note 23, the Company's average supplier payment period in 2022 is 21.56 days. This average period is below the maximum set out in late payment legislation.

5. Treasury shares

At 31 December 2022 and 2021 there are no treasury shares and none have been acquired during the year.

6. Derivative financial instruments

At 31 December 2022 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.

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

8. Research and development activities

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:

- ✓ Project H2SAREA: project subsidised by the Basque government's strategic HAZITEK programme, in partnership with the technology centres of Tecnalia, Ikerlan and the Spanish National Hydrogen Centre and five partners (ABC Compresores, Erreka, Fidegas, H2Site and Orkli). The aim of this project is to ensure the safe use of hydrogen in natural gas distribution infrastructures by developing cutting-edge solutions from Basque industry.

- ✓ The key milestones and results from this second year of project implementation are as follows:

  - Completing the construction and commissioning of the H2Loop platform.
  - The Lehendakari opening the facilities and the third vice-president and Spanish minister for Ecological Transition and the Demographic Challenge visiting the facilities.
  - Compatibility testing of materials in the natural gas network with 100% H2.
  - Successful operational and running tests of the H2Loop with blending levels of 5% H2 - 95% natural gas and the start of tests with 10% H2 - 90% natural gas.
  - Designing, building and validating direct hydrogen injection point in the natural gas network.
  - Analysing network capacity to take on the presence of hydrogen.
  - In the industrial sector, CFD modelling study of 2 natural gas cases and the performance thereof with hydrogen/natural gas mixtures: heat treatment furnace and steam boiler.

- ✓ Strategic positioning in other projects to decarbonise industry, which are being analysed to set up and run pilot projects.

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

- ✓ European Gas Research Group (GERG): taking part in working groups.
- ✓ READY4H2, a project that aims to combine hydrogen expertise and experiences in European gas distribution companies: participation in working groups.
- ✓ 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 natural 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 GAS, Bilbao School of Engineering: final presentation of the projects carried out at the Engineering School in Bilbao in 2021-2022.
  - Project no. 1: Big Data analysis in the measurement and control of hydrogen concentration in the natural gas network.
  - Project no. 2: Generating green hydrogen.
  - Project no. 3: Transformation and installation of CNG refuelling system for the Ría Bilbao tourist boat.
  - Project no. 4: Correlation between theoretical and experimental results of the biogas potential of different organic wastes.

Furthermore, four new projects for 2022-2023 have been promoted:

- Project no. 1: Big data and data analysis for the injection of renewable gases into the distribution network.
- Project no. 2: Odorant analysis for hydrogen.
- Project no. 3: Correlation between theoretical and experimental results of the biogas potential of different organic wastes.
- Project no. 4: Technical and economic analysis of the generation of synthetic biomethane using different methanation technologies.

9. Environment, social and governance

Nortegas' sustainability strategy is aimed at taking advantage of energy transition opportunities from the core business whilst maintaining service excellence and financial strength. Sustainability has been integrated into all operational, strategic, management and decision-making processes because of its call to accountability and the benefits it brings for the long-term survival of the organisation.

Strategic pillars: Although the weight of renewable gases is still lower in relative terms than the traditional gas distribution business, Nortegas is one of the most innovative companies in the market and its strategic plan reflects its intention to continue along these lines. The company seeks to transform the sector in the regions where it operates by being a reference point for sustainability and digitalisation, strengthening the gas distribution network's key role in energy transition and positioning the company as an essential player in this process with solid sustainability and corporate social responsibility criteria.

The European geopolitical context, the EU's sustainability commitments - made tangible by instruments such as the taxonomy of sustainable activities - and EU REPower have further highlighted the suitability of renewable gases as an alternative energy source in the sustainable energy model and of gas as a leader in decarbonisation.

Nortegas' actions as a natural gas and renewable gas infrastructure solutions company are therefore based on four strategic pillars that seek to maximise the opportunities and minimise the risks of the energy transition, while continuing to have a positive impact on the communities in which it operates.

Pillar 1: Growth of the regulated distribution business:

- Clean, affordable energy: Help ensure access to a cleaner and more affordable energy supply for households and businesses. Maximise network reach and market saturation as there is room for growth in both end-consumer and industrial sectors.

Pillar 2: Innovation and new business:

- Alternative uses for natural gas: Encourage new uses of natural gas as an alternative to more carbon-intensive fuels, helping to reduce the polluting profile of sectors and users.
- Sustainable infrastructure: Promote innovation in "cleaner" energy sources, such as biomethane and hydrogen, and support the green transformation of the sector in partnership with other key players, including public entities, suppliers, research centres and academic institutions.
- New solutions: Promote the integration of technological innovations into Nortegas' economic activity to improve service quality and the development of new solutions.

Pillar 3: Maximising efficiency: Smart use of resources

- Smart use of resources: Improve efficiency by reviewing operational, structural and business processes. Maximise synergies within the company via a shared strategy that includes new business lines and gas distribution activity.

Pillar 4: Sustainable growth: Good governance, safety and prevention, talent, social and environmental impact.

- Good governance: Ensure a dynamic and efficient decision-making process by having appropriately created and structured governing bodies and drawing up and reviewing internal processes.
- Safety and prevention: Ensure the security of processes and solutions, both for Nortegas' operations and for the users and communities it serves, with a focus on prevention and anticipation, but with the capabilities and protocols needed to respond effectively if necessary.
- Talent: Empower individuals and teams as they are the foundation that makes everything else possible.
- Social and environmental impact: Ensure that Nortegas generates a positive impact on the communities in which it operates by including and engaging stakeholders.

These four pillars are integrated into the company through the 2022-2025 strategic sustainability plan, which is based on the company's materiality analysis and Nortegas' business objectives. The plan sets targets with measurable objectives that aim to improve the company's sustainable performance and to improve the quality of non-financial information and the processes used to extract it.

TARGET	KPI	2022 OBJECTIVE	2025 OBJECTIVE
Stakeholder safety	Frequency and severity rates (own employees)	<0.15	<0.15
Information security	Cybersecurity breaches	0	0
Supply quality	TCR rate[1]	2.1	2
Develop our talent	Training hours per employee	35	40
Diversity, equality and inclusion	Percentage of women in leadership roles	40%	42%
Culture of ethics and compliance	Percentage of workforce trained in compliance and ethics	100%	100%
Customer focus	Satisfaction with service provided	<7.5/10	<8/10
Control and reduction of emissions	Reduction of scope 1 and 2 emissions[2]	21%	29%
EU Taxonomy – Green activities	Income from green activities (million Euros)	0.3	10.4
Support for our communities	Percentage of income spent on philanthropic investment	0.04%	0.05%

1. Calculated as the length of outage multiplied by the number of supply points affected, divided by the total number of supply points.
2. Reduction compared to the 2018-2020 average.

10. Outlook

The Company's outlook is based on the following:

- ✓ Continue to invest in the construction of new distribution networks and in the saturation of existing networks.
- ✓ Adapt the company's infrastructures to be used with renewable gases, essentially biomethane and hydrogen.
- ✓ Consolidate new business areas that allow progress to be made on the path to decarbonisation through the use of renewable gases and the transformation to natural gas of energy infrastructures that use fuels with higher pollution levels than natural gas.
- ✓ Continue developing increasingly more demanding health, safety and environmental standards.
- ✓ Continuous improvement of quality and security of supply. Develop an efficient operational system entailing a high level of accountability and based on excellence in terms of operations, inspection and maintenance.
- ✓ Anticipate risks and efficiently manage regulatory requirements, which are essential given the nature of the business.
- ✓ Continue developing LPG activities throughout the entire network, maximising asset value and customer relationships.

- ✓ Continue developing and meeting the Company's sustainability objectives, generating a positive social and environmental impact in the communities where it operates.

- ✓ Continue investing in R&D+I to guarantee a sustainable future for the company in the long-term and to strengthen its role in the energy transition.

11. Events after the reporting date

Since 31 December 2022, no additional significant events have taken place other than those disclosed in Note 37.

AUTHORISATION FOR ISSUE OF THE ANNUAL ACCOUNTS

2022

(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 Ignacio Villar Marcelino
Board member