Madrileña Red de Gas Finance B.V.

Annual report 2019

Amsterdam, the Netherlands

Madrileña Red de Gas Finance B.V.
Prins Bernhardplein 200
1097 JB Amsterdam
The Netherlands
Chamber of Commerce: 55530788

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1. Directors' report

The Directors of Madrileña Red de Gas Finance B.V. ("the Company") hereby submit the directors' report, financial statements and other information of the Company for the year ended 31 December 2019. The annual report is reviewed and approved by the Board of Directors of Madrileña Red de Gas Finance B.V. and the Audit Committee at parent level, which is Elisandra Spain V S.L.U. ("the Parent Company").

General Information

The Company issues bonds on the Luxembourg Stock Exchange and uses the proceeds to issue loans to group entities. The shareholder of the Company is Elisandra Spain V S.L.U., which is registered in Spain. The ultimate parent of the group is Elisandra Spain IV S.L.U., which is registered in Spain.

The Company is domiciled in the Netherlands. The Company's registered address is at Prins Bernhardplein 200, Amsterdam, 1097 JB, the Netherlands. The Company is registered under number 555307888 with the trade register of the Dutch Chamber of Commerce. The Company was originally incorporated on 20 June 2012 and did not have any material activity until changing its incorporated name to Madrileña Red de Gas Finance B.V. on 5 July 2013.

In December 2013 the Company issued a series of notes aggregating to an additional EUR 275 million of EUR 10-year Bonds on the Luxembourg Stock Exchange, each with an interest rate of 4.5% per annum ("the December 2023 Bonds"). The proceeds of this issuance was also used by the Company to provide Madrileña Red de Gas S.A.U. ("the Sister Company") with a loan amounting to EUR 275 million, with an interest rate of 4.598% with the final repayment date at 4 December 2023. As of 3 March 2016 the Company issued a series of notes aggregating to an additional EUR 75 million of EUR 15-year Bonds on the Luxembourg Stock Exchange, each with an interest rate of 3.5% per annum ("the March 2031 Bonds"). The proceeds of this issuance has been used by the Company to provide the Parent Company with a loan amounting to EUR 75 million, with an interest rate of 3.598% with the final repayment date at 3 March 2031. As of 11 April 2017 the Company issued two series of notes aggregating to an additional EUR 300 million of EUR 8-year Bonds on the Luxembourg Stock Exchange, with an interest rate of 1.375% per annum ("the April 2025 Bonds") and EUR 300 million of EUR 12-year Bonds on the Luxembourg Stock Exchange, with an interest rate of 2.25% per annum ("the April 2029 Bonds"). The Sister Company guarantees the December 2023 Bonds, April 2025 Bonds, April 2029 Bonds and March 2031 Bonds. The Sister Company was the receiver of the Issuer-Borrower Loan Agreement ("IBLA") related to the December 2023 Bonds. The Parent Company was the receiver of the IBLA's related to the April 2025 Bonds, April 2029 Bonds and March 2031 Bonds.

The above described September 2018 Bonds, December 2023 Bonds, March 2031 Bonds, April 2025 Bonds and April 2029 Bonds are hereafter together referred to as the Bonds.

In 2019 the Company appointed KPMG Accountants N.V. as the independent auditor of the Company.

From 1 January 2019 until 31 December 2019, the board of directors of the Company was represented by three male directors. The Company believes that the composition of the board of directors has a broad diversity of experience, expertise and background, and that the backgrounds and qualifications of the board members, considered as a group, provide a significant mix of experience, knowledge, abilities and independence to fulfil its responsibilities and properly execute its duties. The Company has appointed the directors based on quality and gender diversity and will continue to ensure the diversity in the board of directors in any future appointments.

On February 26th, 2020, Ruwantha Vidanaarachchi offered his resignation as managing director to the Company. Up to this moment, no new director is appointed.

Financial year 2019

The Company closed its financial accounts for the financial year 2019 with a net result for the year of EUR 810,748 (2018: EUR 1,537,486), resulting in a positive equity position of EUR 2,765,046 as at 31 December 2019 (2018: EUR 1,954,298). The decrease in result mainly relates to the decrease in interest income due to the full redemption of the IBLA 500 and related September 2018 Bonds.

As at 31 December 2019, the total loan receivables of the Company amounted to EUR 945,338,100 (2018: EUR 944,565,804). The total interest receivable increased to EUR 11,594,011 (2018: EUR 11,425,879). During the financial year, interest amounting to EUR 26,896,000 was received (2018: EUR 47,351,143). The decrease in interest received relates to the IBLA 500 which was redeemed in 2018. The notes payable increased to EUR 945,071,645 (2018: EUR 944,451,316) due to the amortisation of issuance costs during the year and the interest payable by the Company increased to EUR 11,047,659 (2018: EUR 10,893,964). During the financial year, interest amounting to EUR 25,875,000 was paid (2018: EUR 45,840,143). The decrease in interest paid relates to the IBLA 500 which was redeemed in 2018.

Total gross interest income for the Company for the year was EUR 27,684,462 (2018: EUR 40,852,906). The decrease relates to the IBLA 500 which was redeemed in 2018. The total gross interest expenses for the Company for the year was EUR 26,649,024 (2018: EUR 39,501,796). The decrease relates to September 2018 Bonds which were redeemed in 2018. The operating costs and expenses decreased to EUR 19,934 positive (2018: EUR 459,816 positive) due to the release of the IFRS 9 impairment on financial assets amounting to EUR 151,967 and are compensated by the net interest income of EUR 1,035,438 (2018: EUR 1,351,110) resulting in a profit before income tax for 2019 of EUR 1,055,372 (2018: EUR 1,810,926). The decrease in profit before income relates to the redemption of the IBLA 500 and the September 2018 Bonds and the release of IFRS 9 impairment in 2019. The total of the finance income for the year was EUR 104,350 (2018: 102,825) and the total of the finance expenses for the year was EUR 104,350 (2018: EUR 102,825).

Risk Management
Risk management is performed by the directors of the Company. The risks the Company is dealing with are credit risk, liquidity risk, market risk and interest rate risk. In order to control and monitor these risks, methods and indicators have been initiated.

Credit risk
Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from related parties. The amount recognised in the balance sheet of the Company for financial assets, interest receivables, deferred tax assets, other receivables and cash and cash equivalents is the maximum credit risk in the case that counterparties are unable to fulfill their contractual obligations. The Company’s exposure to credit risk is influenced mainly by the terms of the credit profile of Madrileña Red de Gas S.A.U. ("the Sister Company") and the IBLA’s which has demonstrated strong financial performance during the last years. The Sister Company has been granted a long-term BBB rating by Standards & Poor’s Ratings Services and a BBB- rating by Fitch Ratings. Furthermore, the Company’s credit risk is mitigated due to the fact that the Company only holds held-to-maturity investments (the IBLA's) which are considered to be low risk investments. Therefore, only credit ratings of the investments are monitored for credit deterioration.

The Sister Company guarantees the December 2023 Bonds, April 2025 Bonds, April 2029 Bonds and March 2031 Bonds. The Sister Company was the receiver of the Issuer-Borrower Loan Agreement ("IBLA") related to the December 2023 Bonds. The Parent Company was the receiver of the IBLA's related to the April 2025 Bonds, April 2029 Bonds and March 2031 Bonds.

Exposure to credit risk
The carrying amount of financial assets and liabilities represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2019	31 December 2018
	€	€
Loan receivables	945.338.100	944.565.804
Interest receivables	11.594.011	11.425.879
Deferred income tax assets	390.605	421.378
Other receivables	16.206	-
Cash and cash equivalents	1.675.907	1.023.869
Total	959.014.829	957.436.930

The loan and interest receivables are receivable from the Sister Company and the Parent Company.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. A complete overview of the maturity and nominal value of the underlying bonds is displayed in section 2.5, Note 4 of the financial statements. Based on the payment terms under the IBLA's, Company's forecasted cash flow and the strong performance of the related party to which the loans are provided, all operational liabilities and contingencies are expected to be paid as they fall due. The terms on which related party transactions were initiated at arms' lenght. The Company monitors the cash flow forecasts on an ongoing basis to identify any issues as they might arise. Moreover, management of the Company makes cash flow forecasts in order to monitor all revenues and expenses for the relevant year. Cash flow forecasts are observed and modified if necessary by the Sister Company. During board meetings the cash flow forecasts are submitted to the directors of the Company who evaluates and, eventually, approves.

Market and interest rate risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Company's exposure to changes in interest rates on borrowings is mitigated by signing of the IBLA's on a fixed rate basis, reflecting the fixed rate bond obligations. Furthermore, the Company is not exposed to foreign exchange risk since all income, finance and expenses have been procured in euros.

The interest rates on the bonds are fixed and will not be repriced during the term of the bonds. However, the bonds could be re-issued in case the Parent Company and Sister Company are not able to repay the underlying loan. Since interest rates vary over time, it is plausible that re-issuance would only be possible at an interest rate which is substantially higher.

The spread of the coronavirus disease, together with other political and economic developments, is currently negatively impacting the international markets and global economic growth expectations. Depending on the further evolvement of the coronavirus disease, the fair values of debt instruments might be affected subsequent to balance date.

Capital management
The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, share premium and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The group's objectives when managing capital are to:
- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid.

There were no changes in the Company's approach to capital management during the year.

Future Developments
The Board of Directors is confident in its positive view on future developments of the Company. Based on the liabilities related to the issued bonds and the current IBLA's in place, the Company expects positive cash flows on a year to year basis to be able to fulfill its obligations related to the issued bonds. It is expected the Company will continue its activities for the financial year 2020 in the same way. Given the scheduled redemption dates for both IBLA's and Bonds, no changes are expected in investments or financing. The Company does not foresee any special circumstances that can materially impact the expectations for the year 2020. Based on the set-up and objectives of the Company, it is not expected any Research and Development will be performed. No changes are expected in personnel.

As at year-end 2019 the Company had cash balances amounting to EUR 1,675,907 (2018: EUR 1,023,869) with cash flow forecasts and a budget which indicate that the Company will be able to meet its debts, which mainly consist of the interest payments of the notes as they fall due for the next twelve months. The amounts of interest to be received on the IBLA's and paid on the Bonds remain the same each year, as well as the operating expenses. Therefore, it is not expected the net income will be materially influenced.

There is growing evidence that the spreading of the Covid-19 virus may have a temporary impact on the economy. The company has carried out a risk analysis with the available information at this stage and it does not envisage a significant risk for the going concern of the company in the following 12 months.

Based on the above, the Board of Directors expects the Company to continue as a going concern for the foreseeable future.

Risk projections
The Board of Directors of the Company is responsible for its system of internal control and risk management and for reviewing the effectiveness of the system of internal control. For this purpose the management of the Company makes use of the established procedures at the Company's administrator, necessary to apply these guidelines, including clear operating procedures, lines of responsibility and delegated authorities. The Board of Directors of the Company relies on the ISAE 3402 framework of the administrator. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and it can only provide reasonable and not absolute assurance against material misstatement or loss.

Environmental and Personnel-related information
Due to the sole purpose of the Company, no environmental related affairs occurred. With respect to personnel, we refer to note 15 of the financial statements.

Non-financial performance indicators
Due to the sole purpose of the Company, no information regarding non-financial performance indicators is available.

Corporate Social Responsibility
On group level, several committees are established to mainly manage (but not limited to) risk management, compliance, crime prevention and health and safety. The Company is part of the scope of these committees.

Responsibility Statement
All directors confirm that, to the best of his or her knowledge:
• The financial statements for the year 2019, which have been prepared in accordance with the International Reporting Standards (IFRS), as adopted by the European Union and the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.
• The Management Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties they face, as required pursuant to section 5:25d(8)/(9) of the Dutch Financial Markets Supervision Act ('Wet op het financieel toezicht").

Subsequent events
There is growing evidence that the spreading of the Covid-19 virus may have a temporary impact on the economy. The company has carried out a risk analysis with the available information at this stage and it does not envisage a significant risk for the going concern of the company in the following 12 months.

Amsterdam, 19 March 2020

Verwoest, Martijn Jaap Gijsbertus	as director A	Appointed	7 May 2015
Cozzi, Roberto Maria	as director A	Appointed	31 August 2018

2. Financial Statements

2.1 Balance sheet as at 31 December 2019

(Before result appropriation)

		31 December 2019		31 December 2018	
ASSETS		€	€	€	€
Fixed assets					
Financial assets					
Loan receivables	[1a]	945.338.100		944.565.804	
			945.338.100		944.565.804
Current assets					
Receivables					
Interest receivables	[1b]	11.594.011		11.425.879	
Deferred income tax assets	[2]	390.605		421.378	
Other receivables	[9]	16.206		-	
Cash and cash equivalents	[3]	1.675.907		1.023.869	
			13.676.729		12.871.126
			959.014.829		957.436.930

		31 December 2019		31 December 2018	
SHAREHOLDER'S EQUITY AND LIABILITIES		€	€	€	€
Shareholder's equity	[4]				
Share capital		18.000		18.000	
Share premium		2.002.000		2.002.000	
Other reserves		(65.702)		(1.603.188)	
Result financial year		810.748		1.537.486	
			2.765.046		1.954.298
Non-current liabilities					
Notes payable	[5]	945.071.645		944.451.316	
			945.071.645		944.451.316
Current liabilities					
Interest payable	[5]	11.047.658		10.893.964	
Trade creditors		24.200		31.072	
Taxes	[6]	106.280		106.280	
			11.178.138		11.031.316
			959.014.829		957.436.930

The accompanying notes are an integral part of these financial statements.

2.2 Statement of comprehensive income for the year ended 31 December 2019

		2019		2018	
		€	€	€	€
Interest income and expense	[7]				
Interest income		27.684.462		40.852.906	
Interest expense		(26.649.024)		(39.501.796)	
Net interest income			1.035.438		1.351.110
Operating costs and expenses	[8]				
Reversal of impairment on financial assets		151.967		889.553	
Employee benefits expenses		(30.211)		(30.070)	
Operating expenses		(101.822)		(187.279)	
			19.934		672.204
Operating profit			1.055.372		2.023.314
Finance income and expenses	[9]				
Finance income		104.350		102.825	
Finance expense		(104.350)		(102.825)	
Net finance result			-		-
Result before tax			1.055.372		2.023.314
Income tax expense	[10]		(244.624)		(485.828)
Net result for the year			810.748		1.537.486
Total comprehensive Income			810.748		1.537.486

The accompanying notes are an integral part of these financial statements.

2.3 Statement of changes in equity for the year ended 31 December 2019

	Issued and fully paid share capital	Share Premium	Other Reserves	Total
	€	€	€	€
Balance as at 1 January 2018	18.000	2.002.000	(879.188)	1.140.812
Contributions by and distributions to the owners of the Company	-	-	-	-
Dividends	-	-	(724.000)	(724.000)
Profit and total Comprehensive income for the year	-	-	1.537.486	1.537.486
Balance as at 31 December 2018	18.000	2.002.000	(65.702)	1.954.298
Contributions by and distributions to the owners of the Company	-	-	-	-
Dividend	-	-	-	-
Profit and total Comprehensive income for the year	-	-	810.748	810.748
Balance as at 31 December 2019	18.000	2.002.000	745.046	2.765.046

The accompanying notes are an integral part of these financial statements.

2.4 Cash flow statement for the year ended 31 December 2019

The cash flow statement has been prepared according to the indirect method.

		2019	2019	2018	2018
		€	€	€	€
Cash flow from operating activities					
Net result for the year			810.748		1.537.486
Adjustments to statement of income					
Corporate income tax	[6]	244.624		485.828	
Reversal of impairment on financial assets		(151.967)		(889.553)	
Interest income	[7]	(27.684.462)		(40.852.906)	
Interest expense	[7]	26.649.024		39.501.796	
			(942.781)		(1.754.835)
Interest received		26.896.000		47.267.120	
Interest paid		(25.875.000)		(45.756.120)	
			1.021.000		1.511.000
Change in trade and other receivables	[9]	(16.206)		-	
Change in trade and other payables		(6.872)		27.442	
Income tax paid	[10]	(213.851)		(273.440)	
Change in tax payables		-		(120.598)	
Change in working capital			(236.929)		(366.596)
Net cash flows resulting from operating activities			652.038		927.055
Cash flow from investment activities					
Loans issued	[1]	-		(500.000.000)	
Net cash flow resulting from investments			-		(500.000.000)
Cash flow from financing activities					
Dividend paid		-		(724.000)	
Bonds issued at Luxembourg Stock exchange	[5]	-		500.000.000	
Net cash flows used in financing activities			-		499.276.000
Net increase in cash and cash equivalents			652.038		203.055
Notes to the cash resources					
Cash and cash equivalents at 1 January			1.023.869		820.814
Movements in cash			652.038		203.055
Cash and cash equivalents at 31 December			1.675.907		1.023.869

The accompanying notes are an integral part of these financial statements.

2.5 Notes to the financial statements

General information
Madrileña Red de Gas Finance B.V.'s ("the Company") main activities are to invest and apply funds obtained by the Company in (interest in) bonds, loans, whether or not with group entities, for its own account and/or as depositary for the account of third parties.

The Company's address is Prins Bernhardplein 200, Amsterdam, the Netherlands (CoC: 55530788).

The Company has been incorporated under the laws of the Netherlands as a private company ('besloten vennootschap') with limited liability by the notarial deed dated 20 June 2012 and changed its incorporated name to Madrileña Red de Gas Finance B.V. on 5 July 2013.

The shareholder of the Company is Elisandra Spain V S.L.U., which is registered in Spain. The ultimate parent of the group is Elisandra Spain IV, which is registered in Spain.

2.5.1 Risk Management

Financial instruments
The Group has exposure to the following risks from its use of financial instruments:
• Credit risk
• Liquidity risk
• Market- and Interest rate risk

Credit risk
Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from related parties. The amount recognised in the balance sheet of the Company for financial assets, interest receivables, deferred tax assets, other receivables and cash and cash equivalents is the maximum credit risk in the case that counterparties are unable to fulfill their contractual obligations. The Company’s exposure to credit risk is influenced mainly by the terms of the credit profile of Madrileña Red de Gas S.A.U. ("the Sister Company") and the IBLA’s which has demonstrated strong financial performance during the last years. The Sister Company has been granted a long-term BBB rating by Standards & Poor’s Ratings Services and a BBB- rating by Fitch Ratings. Furthermore, the Company’s credit risk is mitigated due to the fact that the Company only holds held-to-maturity investments (the IBLA's) which are considered to be low risk investments. Therefore, only credit ratings of the investments are monitored for credit deterioration.

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Deferred income tax assets	390.605	421.378
Other receivables	16.206	-
Cash and cash equivalents	1.675.907	1.023.869
Total	947.014.007	945.589.673

The loan and interest receivables are receivable from the Sister Company and the Parent Company

2.5 Notes to the financial statements

Liquidity risk
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The interest rates on the bonds are fixed and will not be repriced during the term of the bonds. However, the bonds could be re-issued in case the Parent Company and Sister Company are not able to repay the underlying loan. Since interest rates vary over time, it is plausible that re-issuance would only be possible at an interest rate which is substantially higher.

The spread of the coronavirus disease, together with other political and economic developments, is currently negatively impacting the international markets and global economic growth expectations. Depending on the further evolvement of the coronavirus disease, the fair values of debt instruments might be affected subsequent to balance date.

Capital management
The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, share premium and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The group's objectives when managing capital are to:
- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid.

There were no changes in the Company's approach to capital management during the year.

2.5.2 Basis of preparation
The financial statements have been prepared in accordance with the International Reporting Standards (IFRS), as adopted by the European Union, and Title 9 Book 2 of the Dutch Civil Code. Also the Directors' report is prepared in accordance with Title 9 Book 2 of the Dutch Civil Code.

The financial statements were approved and authorised for issue by the Board of Directors on 20 March 2020.

2.5 Notes to the financial statements

Going concern
The accompanying financial statements have been prepared assuming the Company will continue as a going concern for the foreseeable future.

Basis of measurement
The financial statements have been prepared on the historical cost basis, as explained in the accounting policies below.

Functional and presentation currency
These financial statements are presented in Euro, which is the Company's functional and presentation currency.

Use of estimates and judgments
The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2019 and 31 December 2018 are described in the financial instruments section.

Measurement of fair values in the notes to the financial statements

A number of the Company's disclosures require the measurement of fair values, for financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.
• Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
• Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
• Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

2.5.3 Significant accounting policies
The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the Company.

Financial instruments
The Company classifies non-derivative financial assets into the following categories: loans and receivables and cash and cash equivalents. The Company classifies non-derivative financial liabilities into the other financial liabilities category.

2.5 Notes to the financial statements

Non-derivative financial assets – recognition and derecognition
The Company initially recognises the bonds on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets – measurement
Financial assets
Financial fixed assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Loans receivables
These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Deferred income tax assets
Deferred income tax assets are offset when there is a legally enforceable right to offset current tax assets and when deferred tax balances relate to the same taxation authority.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. The Company is holder of the bank account at Rabobank which has been granted a long-term A+ rating by Standards & Poor's Ratings Services and a long-term AA- rating by Fitch Ratings. Based on these ratings the Company does not foresee any complications with respect to availability of the cash balance.

Non-derivative financial liabilities - recognition and derecognition
The Company initially recognises the bonds on the date that they are originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.
The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Non-derivative financial liabilities - measurement
Non-derivative financial liabilities include the bonds and trade and other payables. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

2.5 Notes to the financial statements

Trade payables per balance sheet
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payables are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Revenue recognition

Interest income
Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Interest income is the only revenue of the Company.

Interest expense
Interest expense comprise interest expense on borrowings accounted for applying the effective interest rate method.

Employee benefits
Short-term employee benefits
Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Finance income and expense
Other finance income is recognised when the right to receive payment is established.

Income tax
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.
The current income tax charge is calculated on the basis of the tax laws enacted or substantively at the end of the reporting period in the Netherlands where the Company operates and generates taxable income. Management establishes provisions on the basis of amounts expected to be paid to the Dutch tax authorities.

2.5 Notes to the financial statements

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impairment
The IBLA December 2023, IBLA April 2025, IBLA April 2029, IBLA March 2031 and Loan Receivable MRG SAU are solely held for collection of their contractual cash flows. Those cash flows represent solely payments of principal and interest and are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in the statement of profit or loss.

The Company applies the general expected loss model (Expected Credit Losses or "ECL") for its financial assets.

The amount of ECLs recognized as a loss allowance depends on the extent of credit deterioration since initial recognition. The company is required to recognize an allowance for 12-month (no significant increase in credit risk) and is implemented by assessment at the counterparty level. For Elisandra Spain V S.L.U. we will obtain a certain probability of default for 2019 which correspond to a low credit risk since the bonds are rated at investment grade.

The Company has made an assessment of the credit risks of its counterparties. The credit risk that the Company bears is due to the loans granted to the Parent Company. As of the day of this report, the Parent Company has a very steady and stable credit rating and, therefore, the Company does not expect any significant changes in this credit risk.

The impact as per December 31, 2019 was a decrease in the impairment provision for financial assets of approximately EUR 0.15 million (2018: EUR 0.89 million) with the corresponding decrease in the deferred tax asset of approximately EUR 0.03 million (2018: EUR 0.21 million). This resulted in a net decrease of approximately EUR 0.12 million (2018: EUR 0.68 million) in Retained Earnings.

The ECL is calculated as the exposure at default, which is the total exposure (EUR 958,465,656) multiplied by the Probability of Default (being 0.16%) multiplied by the Loss Given Default (which is 100%). The Probability of Default is calculated as the average of the credit rating of the principles Credit Agencies.

2.5 Notes to the financial statements

2.5.4 Change in accounting Principles

New and amended standards adopted by the Company
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. Since only one segment (interest income from Spain) applies to the Company no segment report will be displayed within these Financial Statements. Moreover, interest income is generated by Elisandra Spain V S.L.U. and Madrileña Red de Gas S.A.U. which are the customers of the Company. Both parties are resident in Spain.

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:
- Interpretation 23 Uncertainty over Income Tax Treatments.
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 Financial Instruments
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

Standards issued by the IASB/IFRIC, but which are not applicable to the Company:
• IFRS 16 was issued in January 2016 and became effective from 1 January 2019. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The Accounting for lessors will not significantly change.

Since the Company does not hold any Leases, IFRS 16 is not applicable to the Company.

2.5 Notes to the financial statements

ASSETS

FINANCIAL ASSETS AND INTEREST RECEIVABLES

Financial assets [1a]

	31 December 2019	31 December 2018
	€	€
IBLA MRG 4.598% Dec 2023	276.035.470	276.024.694
IBLA Elisandra V 1.473% Apr 2025	301.856.305	301.577.372
IBLA Elisandra V 2.348% Apr 2029	302.162.180	301.767.974
IBLA MRG 3.598% March 2031	76.584.331	76.479.785
Loan Receivable MRG SAU	1.827.370	1.827.370
Total current and non-current	958.465.656	957.677.195
Less Interest receivable (current)	(11.594.011)	(11.425.879)
Sub total	946.871.645	946.251.316
Impairment IFRS 9	(1.533.545)	(1.685.512)
Total financial assets (non-current)	945.338.100	944.565.804

	31 December 2019		31 December 2018	
	Fair value	Carrying value	Fair value	Carrying value
	€	€	€	€
IBLA MRG 4.598% Dec 2023	319.757.720	276.035.470	321.996.444	276.024.694
IBLA Elisandra V 1.473% Apr 2025	312.218.916	301.856.305	301.245.339	301.577.372
IBLA Elisandra V 2.348% Apr 2029	325.812.069	302.162.180	306.974.612	301.767.974
IBLA MRG 3.598% March 2031	89.889.399	76.584.331	85.961.151	76.479.785
Loan Receivable MRG SAU	1.827.370	1.827.370	1.827.370	1.827.370
	1.049.505.474	958.465.656	1.018.004.916	957.677.195

On 4 December 2013 the Company entered into an IBLA with the Sister Company for an amount of EUR 275 million. The interest rate on the loan is 4.598% and the balance is not secured. Interest on the loan receivable is to be calculated per 4 December, each year until the loan expires on 4 December 2023. The interest is receivable one business day before 4 December each year.

On 3 March 2016 the Company entered into an IBLA with the Parent Company for an amount of EUR 75 million. The interest rate on the loan is 3.598% and the balance is not secured. Interest on the loan receivable is to be calculated per 3 March, each year until the loan expires on 3 March 2031. The interest is receivable one business day before 3 March each year.

The loan receivable MRG SAU from the Sister Company, with an applicable interest of 5.0% is unsecured. The loan and interest receivable have an expiry date on 11 September 2022.

On 11 April 2017 the Company entered into an IBLA with the Parent Company for an amount of EUR 300 million. The interest rate on the loan is 1.473% and the balance is not secured. Interest on the loan receivable is to be calculated per 11 April, each year until the loan expires on 11 April 2025. The interest is receivable one business day before 11 April each year.

On 11 April 2017 the Company entered into an IBLA with the Parent Company for an amount of EUR 300 million. The interest rate on the loan is 2.348% and the balance is not secured. Interest on the loan receivable is to be calculated per 11 April, each year until the loan expires on 11 April 2029. The interest is receivable one business day before 11 April each year.

2.5 Notes to the financial statements

Interest receivables [1b]

	31 December 2019	31 December 2018
	€	€
IBLA MRG 4.598% Dec 2023	1.035.470	1.024.694
IBLA Elisandra V 1.473% Apr 2025	3.196.208	3.167.968
IBLA Elisandra V 2.348% Apr 2029	5.094.838	5.011.600
IBLA MRG 3.598% March 2031	2.240.125	2.194.247
Loan Receivable MRG SAU	27.370	27.370
Total current and non-current	11.594.011	11.425.879

Deferred income tax assets [2]
The deferred tax assets decreased with EUR 30,773 due to the partial release of the IFRS 9 impairment.

Cash and cash equivalents [3]
Cash and cash equivalents are deposited at the transaction account at Rabobank. The cash balance is freely available to the Company.

2.5 Notes to the financial statements

SHAREHOLDERS' EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY [4]

Share capital

	Number of Ordinary shares	**Total number**
On issue at 01-01-2018	1.800.000	1.800.000
Issued for cash	-	-
On issue at 31-12-2018	1.800.000	1.800.000
Issued for cash	-	-
On issue at 31-12-2019	1.800.000	1.800.000

At 31 December 2019, the authorised share capital comprised 1.8 million ordinary shares (2018: 1.8 million) with a par value of EUR 0.01 per share. All ordinary shares have been issued and fully paid.

The holders of ordinary shares are entitled to receive dividends as declared. All shares are entitled to one vote per share at Company meetings.

Share premium
At the end of 2019 the Company recorded a share premium of EUR 2,002,000 (previous year: EUR 2,002,000) which represents a capital injection from the Parent Company as 100% shareholder of the company in order to meet Dutch law requirements.

Dividends
No dividends were distributed by the Company for the year ended 31 December 2019 (2018: EUR 724,000).

NON-CURRENT LIABILITIES AND INTEREST PAYABLES

Notes payable [5]

	31 December 2019	31 December 2018
	€	€
Bonds December 2023	276.008.749	275.998.969
Bonds April 2025	301.643.659	301.366.943
Bonds April 2029	301.949.534	301.559.260
Bonds March 2031	76.517.362	76.420.108
Total current and non-current	956.119.304	955.345.280
Less Interest payable (current)	(11.047.658)	(10.893.964)
Total non-current	945.071.646	944.451.316

	31 December 2019	31 December 2019	31 December 2018	31 December 2018
	Fair value	Carrying value	Fair value	Carrying value
	€	€	€	€
Bonds December 2023	319.757.720	276.008.749	321.996.444	275.998.969
Bonds April 2025	312.218.916	301.643.659	301.245.339	301.366.943
Bonds April 2029	325.812.069	301.949.534	306.974.612	301.559.260
Bonds March 2031	89.889.399	76.517.362	85.961.151	76.420.108
Loans and borrowings	1.047.678.104	956.119.304	1.016.177.546	955.345.280

2.5 Notes to the financial statements

Balance as at 31-12-2019	<1yr	1-5yrs	>5yrs	Total
	€	€	€	€
Trade Creditors	24.200	-	-	24.200
Interest Payable	11.047.658	91.125.000	56.250.000	158.422.658
Bonds December 2023	-	275.000.000	-	275.000.000
Bonds April 2025	-	-	300.000.000	300.000.000
Bonds April 2029	-	-	300.000.000	300.000.000
Bonds March 2031	-	-	75.000.000	75.000.000
Loans and borrowings	11.071.858	366.125.000	731.250.000	1.108.446.858

Balance as at 31-12-2018	<1yr	1-5yrs	>5yrs	Total
	€	€	€	€
Trade Creditors	31.072	-	-	31.072
Interest Payable	24.888.880	103.500.000	42.750.000	171.138.880
Bonds December 2023	-	275.000.000	-	275.000.000
Bonds April 2025	-	-	300.000.000	300.000.000
Bonds April 2029	-	-	300.000.000	300.000.000
Bonds March 2031	-	-	75.000.000	75.000.000
Loans and borrowings	24.919.952	378.500.000	717.750.000	1.121.169.952

The amounts as displayed in two above tables are stated as undiscounted values. Within this structure the financial assets and liabilities side are pretty much the same and so will the maturity table. Therefore, management of the Company has decided not to add a maturity table regarding to the financial assets.

Loans and borrowings
The bonds were valued at amortized cost. As the costs related to the loan were reimbursed under the IBLA, these were not taken into account determining the loan value. Reference is made in the note of the finance income and expense.

The Company issued bonds at the Luxembourg Stock Exchange on 4 December 2013 for an amount of EUR 275 million with a fixed interest rate of 4.5%. The bonds mature ten years from the issue date at their nominal value. The loan is valued at amortized cost.

The Company issued bonds at the Luxembourg Stock Exchange on 3 March 2016 for an amount of EUR 75 million with a fixed interest rate of 3.5%. The bonds mature fifteen years from the issue date at their nominal value. The loan is valued at amortized cost. As the costs related to the loan are reimbursed under the IBLA these are not taken into account determining the loan value. Reference is made in the note of the finance income and expense.

The Company issued bonds at the Luxembourg Stock Exchange on 11 April 2017 for an amount of EUR 300 million with a fixed interest rate of 1.375%. The bonds mature eight years from the issue date at their nominal value. The loan is valued at amortized cost. As the costs related to the loan are reimbursed under the IBLA these are not taken into account determining the loan value. Reference is made in the note of the finance income and expense.

The Company issued bonds at the Luxembourg Stock Exchange on 11 April 2017 for an amount of EUR 300 million with a fixed interest rate of 2.25%. The bonds mature twelve years from the issue date at their nominal value. The loan is valued at amortized cost. As the costs related to the loan are reimbursed under the IBLA these are not taken into account determining the loan value. Reference is made in the note of the finance income and expense.

Taxes [6]
Taxes relate to Corporate Income Tax (CIT) and Value Added Tax (VAT).

2.5 Notes to the financial statements

Interest income and expenses [7]	2019	2018
Interest income from financial	€	€
assets measured at amortised cost	27.684.462	40.852.906
Interest income	27.684.462	40.852.906

	2019	2018
Interest expense from financial liabilities	€	€
measured at amortised cost	(26.649.024)	(39.501.796)
Interest expense	(26.649.024)	(39.501.796)
Net interest income	1.035.438	1.351.110

Operating costs and expenses [8]	2019	2018
	€	€
Release of impairment IFRS 9	151.967	889.553
Deferred tax	-	-
Reversal of impairment on financial assets	151.967	889.553

	2019	2018
	€	€
Wages and salaries	(13.430)	(13.452)
Social premiums	(12.334)	(12.285)
Other costs	(4.447)	(4.333)
Employee benefits expenses	(30.211)	(30.070)

	2019	2018
	€	€
Auditor fees	(44.400)	(75.521)
Administrative fees	(28.068)	(28.531)
Bank charges	(3.774)	(3.780)
Tax services fees	(8.168)	-
Advisory fees	(8.168)	-
Other expenses	(48)	(12.128)
Negative interest bank account	(9.196)	(67.319)
Operating expenses	(101.822)	(187.279)

Finance income and expenses [9]	2019	2018
	€	€
Other finance income	104.350	102.825
Finance income	104.350	102.825
Other finance expenses	(104.350)	(102.825)
Finance expense	(104.350)	(102.825)
Net finance result	-	-

The other finance income relates to the reimbursement of costs under the IBLA's currently in place. The finance expenses relate to the expenses incurred in relation to the issuance of bonds, for which the Company is reimbursed under the IBLA's in place.

2.5 Notes to the financial statements

Income tax expense [9]

	2019	2018
Current tax expense	€	€
Current year	244.624	485.828
Income tax	244.624	485.828

Reconciliation of effective tax rate

	2019		2018	
	€	%	€	%
Net result for the year	810.748		1.537.486	
Total income tax	244.624		485.828	
Profit (Loss) excluding income tax	1.055.372		2.023.314	
Income tax using the Company's domestic Rate	244.624	23,2%	442.732	21,9%
Prior year adjustments	-	0,0%	-	0,0%
Current year losses for which no deferred tax asset was recognised	-	0,0%	-	0,0%
Adjustments due to IFRS 9 impairment	-	0,0%	-	0,0%
Other	-	0,0%	43.096	2,1%
	244.624	23,2%	485.828	24,0%

During the financial year, an amount of EUR 230,057 was paid as preliminary corporate income tax. As the total income tax due for the financial year 2019 amounts to EUR 213,851, a receivable of EUR 16,206 was recorded in the balance sheet.

The effective tax rate is based on the net result for the year. The net result for the year is higher due to the partial release of the IFRS 9 impairment on assets. Due to the fact the Dutch tax authorities are not expected to recognize the impairment (and the corresponding partial release), the fiscal profit is lower than the net result for the year as presented. The effective tax rate is 23.2% (2018: 24.0%).

Fair value hierarchy for financial instruments as at 31 December 2019 [11]

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets	€	€	€	€
IBLA December 2023	-	319.757.720	-	319.757.720
IBLA April 2025	-	312.218.916	-	312.218.916
IBLA April 2029	-	325.812.069	-	325.812.069
IBLA March 2031	-	89.889.399	-	89.889.399
Loan Receivable MRG SAU	-	1.827.370	-	1.827.370
	-	1.049.505.474	-	1.049.505.474

2.5 Notes to the financial statements

Financial liabilities				
Bonds December 2023	319.757.720	-	-	319.757.720
Bonds April 2025	312.218.916	-	-	312.218.916
Bonds April 2029	325.812.069	-	-	325.812.069
Bonds March 2031	-	89.889.399	-	89.889.399
	957.788.705	89.889.399	-	1.047.678.104

Fair value hierarchy for financial instruments as at 31 December 2018 [11]

	Level 1	Level 2	Level 3	Total
Financial assets	€	€	€	€
IBLA December 2023	-	321.996.444	-	321.996.444
IBLA April 2025	-	301.245.339	-	301.245.339
IBLA April 2029	-	306.974.612	-	306.974.612
IBLA March 2031	-	85.961.151	-	85.961.151
Loan Receivable MRG SAU	-	1.827.370	-	1.827.370
	-	1.018.004.916	-	1.018.004.916
Financial liabilities				
Bonds December 2023	321.996.444	-	-	321.996.444
Bonds April 2025	301.245.339	-	-	301.245.339
Bonds April 2029	306.974.612	-	-	306.974.612
Bonds March 2031	-	85.961.151	-	85.961.151
	930.216.395	85.961.151	-	1.016.177.546

Fair values versus carrying amounts
The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	€	€	€	€
IBLA	956.638.286	1.047.678.104	955.849.825	1.016.177.546
Loan receivable MRG	1.827.370	1.827.370	1.827.370	1.827.370
Trade and other receivables	16.206	16.206	-	-
Cash and cash equivalents	1.675.907	1.675.907	1.023.869	1.023.869
Loans and borrowings	(956.119.304)	(1.047.678.104)	(955.345.280)	(1.016.177.546)
Trade and other payables	(24.200)	(24.200)	(31.072)	(31.072)
	4.014.265	3.495.283	3.324.712	2.820.167

The fair value of the loan receivable MRG, trade and other receivables, cash and cash equivalents and trade and other payables are considered to approximate the carrying amount. The fair value of the IBLA's is derived from the fair value of the loans and borrowings. The Company has the view the IBLA's are directly linked at the loans and borrowings taking into account.

The fair value of the December 2023 Bonds, April 2025 Bonds and April 2029 Bonds (traded at the Luxembourg Stock Exchange) is based on quoted prices in active markets. The fair value of the March 2031 Bonds is based on quoted prices on similar liabilities, taking into account reference bonds.

Related parties [12]
At the end of 2019 the Company recorded a receivable of EUR 956,932,111 from the Sister Company and Parent Company.

2.5 Notes to the financial statements

Off balance sheet assets and liabilities [13]
The Board of Directors has identified no off balance sheet assets and liabilities.

Independent auditor's fee [14]
The audit fee expensed for KPMG Accountants N.V. amounts to EUR 35,000 (2018: PricewaterhouseCoopers Accountants N.V. EUR 37,800).

2019	KPMG Accountants N.V.	Total
	€	€
Audit of the financial statements	35.000	35.000
Other audit services	-	-
Other non-audited services	-	-
	35.000	35.000

2018	Pricewaterhouse-Coopers Accountants N.V.	Total
	€	€
Audit of the financial statements	37.800	37.800
Other audit services	-	-
Other non-audited services	-	-
	37.800	37.800

The fees listed above relate to the procedures applied to the Company by accounting firms and independent external auditors as referred to in Section 1, subsection 1 of the Audit Firms Supervision Act ('Wet toezicht accountantsorganisaties - Wta') as well as by Dutch and foreign-based accounting firms, including their tax services and advisory groups. These fees relate to the audit of the 2019 financial statements, regardless of whether the work was performed during the financial year.

Remuneration of managing directors [15]

Staff members
The average number of staff employed by the Company in 2019 was one (2018: one). The employee is a resident of the Netherlands and employed in the Netherlands as well.

The Directors at the closing of the financial year were:

Verwoest, Martijn Jaap Gijsbertus	as director A	Appointed	7 May 2015
Cozzi, Roberto Maria	as director A	Appointed	31 August 2018

The Directors did not receive any remuneration for their work as director of the Company. The Company does not have Supervisory Directors.

2.5 Notes to the financial statements

Provisions in the articles of association governing the appropriation of profit
According to article 17 of the Company's articles of association, the result is at the disposal of the General Meeting.

The Company can only make payments to the shareholder for the amount the shareholder's equity is greater than the paid-up and called-up part of the capital plus the legally required reserves.

Subsequent events
There is growing evidence that the spreading of the Covid-19 virus may have a temporary impact on the economy. The company has carried out a risk analysis with the available information at this stage and it does not envisage a significant risk for the going concern of the company in the following 12 months.

Responsibility Check
All directors confirm that, to the best of his or her knowledge:

• The financial statements for the year 2019, which have been prepared in accordance with the Dutch Civil Code, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.

• The Directors' Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and
uncertainties they face, as required pursuant to section 5:25d(8)/(9) of the Dutch Financial Markets Supervision Act ('Wet op het financieel toezicht").

Amsterdam, 19 March 2020

Verwoest, Martijn Jaap Gijsbertus	as director A	Appointed	7 May 2015

Cozzi, Roberto Maria	as director A	Appointed	31 August 2018

3. Other information

3.1 Proposed appropriation of result

The Board of directors proposes, with the approval of the General Meeting of Shareholders, that the year for the period ending 31 December 2019 amounting to EUR 810,748 will be appropriated to the other reserves, being part of shareholder's equity.

3.2 Independent auditor's report

Reference is made to the next page.

Independent auditor's report

To: the General Meeting of Shareholders of Madrileña Red de Gas Finance B.V. and the Audit Committee of Elisandra Spain V S.L.U.

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Madrileña Red de Gas Finance B.V. as at 31 December 2019 and of its result for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2019 of Madrileña Red de Gas Finance B.V. ("the Company") based in Amsterdam.

The financial statements comprise:

1 the balance sheet as at 31 December 2019;

2 the statement of comprehensive income for the year ended 31 December 2019;

3 the cash flow statement for the year ended 31 December 2019;

4 the statement of changes in equity for the year ended 31 December 2019; and

5 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Madrileña Red de Gas Finance B.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the 'Wet toezicht accountantsorganisaties' ('Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Audit approach

Summary

Materiality
— Materiality of EUR 9,650,000
— 1% of total assets

Key audit matters
— Recoverability of loan receivables to related companies and their related interest receivables

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 9,650,000. The materiality is determined with reference to 1% of total assets.

We consider total assets, which mainly include accounts related to financing activities, as an appropriate benchmark given the activities of Madrileña Red de Gas Finance B.V. as a group financing company.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee of Elisandra Spain V S.L.U. that misstatements in excess of EUR 480,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matter to the General Meeting of Shareholders of Madrileña Red de Gas Finance B.V. and the Audit Committee of Elisandra Spain V S.L.U. The key audit matter is not a comprehensive reflection of all matters discussed.

This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Recoverability of loan receivables to related companies and their related interest receivables

Description

The Company's exposure, in terms of credit risk, to Elisandra Spain V S.L.U. ('Parent') and Madrileña Red de Gas S.A.U. ('Sister') may have a significant effect on the Company's financial statements. The outstanding balances (loan receivables and interest receivables) of EUR 956,932,111 represent 99.78% of the balance sheet total.

The Company's most significant assets are the loan receivables and interest receivables with the Parent and Sister. The event of an insolvency of the Parent and/or Sister could therefore have a significant impact on the Company.

The Company's ability to meet its financial obligations depends on the cash flow generated from the repayment of (accrued) interest and principal by the Parent and Sister companies.

As such, the risk of a financial loss of the Company is significant, when the Parent and/or Sister fail to meet their contractual obligations towards the Company. Further, the possible impairment loss to be booked based on IFRS 9 can be complex and judgemental in terms of the calculation of the expected credit loss (ECL). Given the pervasive impact on the financial statements of the Company, we consider the valuation of the loan receivables provided to the Parent and Sister and their related interest receivables a significant risk.

Our response

After evaluation of the design and implementation of the controls regarding the recoverability assessment by the Board of Directors in respect of the loan receivables and their related interest receivables, we performed, amongst others, the following substantive audit procedures with respect to the Board of Directors' assessment of the recoverability of the loan receivables and their related interest receivables from the Parent and Sister:

— We inspected the terms and conditions of the loan agreements between the Parent and Sister and the Company;

— We inquired with the Board of Directors of the Company about their assessment of the valuation of the loan receivables and interest receivables, based upon their knowledge of the developments in the financial position and cash flows of Parent and Sister, and about their evaluation with respect to the recoverability of the loan receivables to and of the interest receivable from the Parent and Sister;

— We evaluated the reasonableness of the Board of Directors' key judgements and estimates made in respect of IFRS 9, including selection of methods, models, assumptions and data sources.

— We inspected and analyzed the financial position of the Parent and Sister by evaluating its financial figures for the year 2019. Furthermore, we requested, received and evaluated certain working papers of the auditor of the Parent and Sister;

— We evaluated the long-term credit ratings and outlook of the Parent and Sister, from Standard & Poor's and Fitch;

— In addition, we evaluated the appropriateness of the accounting principles applied based on IFRS 9's requirements for and the Company's disclosures as presented in the notes of the financial statements.

Our observation

The result of our audit procedures relating to the Board of Directors' assessment of the valuation of the loan receivables and interest receivables from the Parent and Sister were satisfactory.

We evaluated the appropriates of the disclosures in Note 2.5 of the financial statements in accordance with EU-IFRS; we concur with these accounting policies.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

— the Directors' Report;

— the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

— is consistent with the financial statements and does not contain material misstatements; and

— contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the Directors' Report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by General Meeting of Shareholders as auditor of Madrileña Red de Gas and Finance B.V. for the year 2019. The audit for the year 2019 is our first year as statutory auditor of the Company since our last year as statutory auditor for the year 2015.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of the Board of Directors and the Audit Committee of Elisandra Spain V S.L.U. for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code . Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Audit Committee of Elisandra Spain V S.L.U. is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of the "Koninklijke Nederlandse Beroepsorganisatie van Accountants" (NBA, Royal Netherlands Institute of Chartered Accountants) at: https://www.nba.nl/globalassets/tools-en-voorbeelden/standaardpassages/eng_oob_01.pdf. This description forms part of our independent auditor's report.

Rotterdam, 19 March 2020

KPMG Accountants N.V.

E. van Deursen RA