Madrileña Red de Gas Finance B.V.

Annual report 2020

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. Director's report

The Director of Madrileña Red de Gas Finance B.V. ("the Company") hereby submit the director's report, financial statements and other information of the Company for the year ended 31 December 2020. 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 a higher level in the group, which is Elisandra Spain IV S.L. ("the Ultimate Parent Company of the 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., 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 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 were 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 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 have 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 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 proceeds of these issuances have been used by the Company to provide the Parent Company with two loans amounting to EUR 300 million each, with an interest rate of 1.473% and a final repayment date at 11 April 2025 and an interest rate of 2.348% and a final repayment date at 11 April 2029. 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 December 2023 Bonds, March 2031 Bonds, April 2025 Bonds and April 2029 Bonds are hereafter together referred to as the Bonds.

In 2020 the Company appointed KPMG Accountants N.V. as the independent auditor of the Company.

From January 1, 2020 until February 26, 2020, the board of directors of the Company was represented by three male directors. On February 26, 2020, Ruwantha Vidanaarachchi offered his resignation as managing director to the Company, as he was asked to fulfill a different role outside the Company. From February 26, 2020 until July 6, 2020, the board of directors of the Company was represented by two male directors. On July 6, 2020, Roberto Cozzi offered his resignation as managing director to the Company, as he was asked to fulfill a different role outside the Company. Up to this moment, no new directors have been appointed. The Company believes that it is important to have a broad diversity of experience, expertise, gender and background in its board and aims to have this reflected in the appointment of the new directors.

Financial year 2020
The Company closed its financial accounts for the financial year 2020 with a net loss for the year of EUR 10,029 (2019: EUR 810,748), resulting in a positive equity position of EUR 2,755,017 as at 31 December 2020 (2019: EUR 2,765,046). The decrease in result mainly relates to the increase of the IFRS 9 impairment as per year-end. After being rated BBB for the years 2015-2020, Standard & Poor's ("S&P") downgraded the long-term credit rating of the Sister Company from BBB to BBB- on August 25th, 2020. The downgrade of the long-term credit rating of the Sister Company is mainly caused by a new regulatory haircut in remuneration for the regulatory period 2021-2026. In March 2020, the National Markets and Competition Commission in Spain published the regulatory framework for the next regulatory period 2021-2026 which implies continuity with the current remuneration methodology and a haircut to the remuneration base. The haircut was published at 17 December 2020 and will result in an average reduction of c.10% of revenues for the regulatory period 2021-26 and will be applied gradually during the period. Management reassessed the parameters used in its Expected Credit Loss model as part of the IFRS 9 impairment calculation, taking into account a downgrade of credit ratings of the Sister Company. After careful consideration, management decided to increase the Probability of Default to 0.25%, corresponding to a credit rating of BBB- as assigned by S&P to the Sister Company (2019: 0.16% for BBB). This increase in Probability of Default caused the IFRS 9 impairment to increase accordingly.

As at 31 December 2020, the total loan receivables of the Company amounted to EUR 945,097,731 (2019: EUR 945,338,100). The total interest receivable increased to EUR 11,605,413 (2019: EUR 11,594,011). During the financial year, interest amounting to EUR 26,896,000 was received (2019: EUR 26,896,000). The notes payable increased to EUR 945,695,483 (2019: EUR 945,071,645) due to the amortisation of issuance costs during the year and the interest payable by the Company increased to EUR 11,063,392 (2019: EUR 11,047,658). During the financial year, interest amounting to EUR 25,875,000 was paid (2019: EUR 25,875,000).

Total gross interest income for the Company for the year amounted to EUR 27,531,239 (2019: EUR 27,684,462). The total gross interest expenses for the Company for the year amounted to EUR 26,514,572 (2019: EUR 26,649,024). The operating costs and expenses increased to EUR 1,026,696 (2019: EUR 19,934 positive) due to the increase of the IFRS 9 impairment on financial assets amounting to EUR 864,207 and are partly compensated by the net interest income of EUR 1,016,667 (2019: EUR 1,035,438), resulting in a loss before income tax for 2020 of EUR 10,029 (2019: profit before income tax EUR 1,055,372). As described above, the increase of the IFRS 9 impairment relates to the downgrade of the long-term credit ratings assigned by S&P to the Sister Company at August 25, 2020, due to the new regulatory haircut in remuneration for the regulatory period 2021-2026. The decrease in profit before income relates to the increase of impairment for IFRS 9 in 2020. The total of the finance income for the year amounted to EUR 122,080 (2019: EUR 104,350) and the total of the finance expenses for the year amounted to EUR 122,080 (2019: EUR 104,350).

Risk Management
Risk management is performed by the director 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, 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 Elisandra Spain V S.L.U. ("the Parent Company"). The senior unsecured debt credit ratings assigned to the Company by Standard & Poor's and Fitch Rating has been BBB- (2019: BBB). On August 17th 2020, the senior unsecured debt credit ratings assigned to the Company by DBRS Morningstar granted BBB (low) (2019: none). The Parent Company is not rated by any rating agency.

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 as, despite the downgrade of the senior unsecured debt credit ratings of the Sister Company by S&P and Fitch in 2020, S&P and Fitch still rate the senior unsecured debt credit ratings of the Sister Company at investment grade. The downgrade of the credit ratings is not related to the current Covid-19 situation as the business of the Sister Company is hardly affected by Covid-19. The downgrade of the Sister Company is mainly caused by a new regulatory haircut in remuneration for the new regulatory period in Spain for the period 2021-2026. In March 2020, the National Markets and Competition Commission in Spain published the regulatory framework for the next regulatory period 2021-2026 which implies continuity with the current remuneration methodology and a haircut to the remuneration base. The haircut was published at 17 December 2020 and will result in an average reduction of c.10% of revenues for the regulatory period 2021-26 and will be applied gradually during the period.

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. Despite the increase in IFRS 9 impairment in 2020, the maximum exposure to credit risk remained the same. As disclosed in the Credit Risk section, the increase in IFRS 9 impairment is not related to the current Covid-19 situation but to a regulatory haircut in remuneration for the Sister Company. The maximum exposure to credit risk at the reporting date was:

	31 December 2020	31 December 2019
	€	€
Loan receivables	945,097,731	945,338,100
Interest receivables	11,605,413	11,594,011
Other receivables	3,210	16,206
Cash and cash equivalents	2,248,755	1,675,907
Total	958,955,109	958,624,224

The loan and interest receivables are receivables from the Sister Company and the Parent Company. The other receivables is a receivable from the Sister 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 6 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 parties to which the loans are provided, all operational liabilities and contingencies are expected to be paid as they fall due. The downgrade of the credit ratings of the Sister Company is not related to the current Covid-19 situation as the business of the Sister Company is hardly affected by Covid-19. The downgrade of the Sister Company is mainly caused by a new regulatory haircut in remuneration for the new regulatory period in Spain for the period 2021-2026. In March 2020, the National Markets and Competition Commission in Spain published the regulatory framework for the next regulatory period 2021-2026 which implies continuity with the current remuneration methodology and a haircut to the remuneration base. The haircut was published at 17 December 2020 and will result in an average reduction of c.10% of revenues for the regulatory period 2021-26 and will be applied gradually during the period. The terms on which related party transactions were initiated, are at arms' length. 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. During board meetings the cash flow forecasts are submitted to the director 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 assets, liabilities, income 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. As per year-end, the fair values of the 2023 Bonds, 2023 IBLA, 2025 Bonds and 2025 IBLA were affected negatively compared to previous year. The fair value of the 2029 Bonds, 2029 IBLA, 2031 Bonds and 2031 IBLA increased slightly compared to previous year. After balance sheet date, the fair values of the Bonds and IBLA's were further affected. At March 10, 2021, the fair value of the 2023 Bonds and 2023 IBLA was further affected negatively. The fair value of the 2025 Bonds and 2025 IBLA remained at the same level compared to balance sheet date. The fair value of the 2029 Bonds, 2029 IBLA, 2031 Bonds and 2031 IBLA further increased compared to the fair values at balance sheet date. Depending on the further devolvement of the coronavirus disease and other political and economic developments, the fair values of debt instruments as well as the loan receivables might be further affected subsequent to the date of this report.

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 Company'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 2021 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 2021. 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 2020 the Company had cash balances amounting to EUR 2,248,755 (2019: EUR 1,675,907) 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 to be paid on the Bonds, as well as the operational expenses, remain materially the same each year. Due to the fact the business of the Sister Company is hardly affected by Covid-19, it is not expected the net cash inflow will be materially influenced. The result before tax was materially influenced due to the increase in IFRS 9 impairment, caused by a downgrade of the long term credit ratings of the Sister Company assigned by S&P. Should the credit ratings of the Sister Company be further downgraded in the future, the Company could face an additional IFRS 9 impairment, impacting the result before tax.

The Company has carried out a risk analysis with the available information at this stage also considering the impact of Covid-19 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 17 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.

Audit committee
Pursuant to the Decree of 26 July 2008 implementing Section 41 of Directive No. 2006/43/EC (hereinafter referred to as the “Decree”), published on 7 August 2008 (Bulletin of Acts and Decrees 2008/323), the Company qualifies as a public interest organization (hereinafter referred to as “PIO”) based on the fact that the Company has issued bonds that are listed on a EU regulated market. According to the Decree, a PIO must establish an independent audit committee, unless it can claim exemption as described in the Decree.

The Board of Directors has advised the Parent Company that the Company can be in compliance with the Decree by either (i) having the Company's General Meeting setting up an independent Audit Committee; or (ii) having the tasks and requirements associated with the compulsory audit committee for a PIO be carried out and observed by the Company's sole shareholder's Audit and Risk Supervision Committee. The Board of Directors of the Company has been notified that the Audit Committee of Elisandra Spain IV S.L. ("the Ultimate Parent Company of the Company") has taken up the role of Audit Committee of the Company for the financial year 2020. The Audit Committee does not receive a renumeration with regards to the services provided to the Company.

Research and development activities
In 2020, the Company did not perform activities connected to research and development. During 2021, the Company does not expect to perform activities connected to research and development.

Responsibility Statement

The Director confirms that, to the best of his knowledge:

• The financial statements for the year 2020, 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 Director's 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").

COVID-19 situation

The Covid-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity. The Company has taken a number of measures to monitor and prevent the effects of the Covid-19 virus, such as safety and health measures (like social distancing and working from home). At this stage, the impact on the business and results of the Company is limited. The Company continues to follow the various national institutes' policies and advice and in parallel will do its upmost to continue operations in the best way.

Subsequent events

There are no other events after the balance sheet date which have an impact on or should be disclosed in the Company's financial statements of 1 January 2020 until 31 December 2020.

Amsterdam, 24 March 2021

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

2. Financial Statements

2.1 Balance sheet as at 31 December 2020
(After result appropriation)

ASSETS		31 December 2020 €	31 December 2020 €	31 December 2019 €	31 December 2019 €
Fixed assets					
Financial assets					
Loan receivables	[1a]	945,097,731		945,338,100	
			945,097,731		945,338,100
Current assets					
Interest receivables	[1b]	11,605,413		11,594,011	
Deferred income tax assets	[2]	587,149		390,605	
Other receivables	[3]	3,210		16,206	
Cash and cash equivalents	[4]	2,248,755		1,675,907	
			14,444,527		13,676,729
			959,542,258		959,014,829

SHAREHOLDER'S EQUITY AND LIABILITIES		31 December 2020 €	31 December 2020 €	31 December 2019 €	31 December 2019 €
Shareholder's equity	[5]				
Share capital		18,000		18,000	
Share premium		2,002,000		2,002,000	
Other reserves		745,046		(65,702)	
Result financial year		(10,029)		810,748	
			2,755,017		2,765,046
Non-current liabilities					
Notes payable	[6]	945,695,483		945,071,645	
			945,695,483		945,071,645
Current liabilities					
Interest payable	[6]	11,063,392		11,047,658	
Trade creditors		24,793		24,200	
Taxes	[7]	3,573		106,280	
			11,091,758		11,178,138
			959,542,258		959,014,829

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

2.2 Statement of comprehensive income for the year ended 31 December 2020

			2020		2019
		€	€	€	€
Interest income and expense	[8]				
Interest income		27,531,239		27,684,462	
Interest expense		(26,514,572)		(26,649,024)	
Net interest income			1,016,667		1,035,438
Operating costs and expenses	[9]				
(Charge)/Reversal of impairment on financial assets		(864,207)		151,967	
Employee benefits expenses		(26,636)		(30,211)	
Operating expenses		(135,853)		(101,822)	
			(1,026,696)		19,934
Operating profit			(10,029)		1,055,372
Finance income and expenses	[10]				
Finance income		122,080		104,350	
Finance expense		(122,080)		(104,350)	
Net finance result			-		-
Result before tax			(10,029)		1,055,372
Income tax expense	[11]		-		(244,624)
Net result for the year			(10,029)		810,748
Total comprehensive Income			(10,029)		810,748

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

2.3 Statement of changes in equity for the year ended 31 December 2020

	Issued and fully paid share capital	Share Premium	Other Reserves	Total
	€	€	€	€
Balance as at 1 January 2019	18,000	2,002,000	(65,702)	1,954,298
Contributions by and distributions to the owners of the Company	-	-	-	-
Dividends	-	-	-	-
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
Contributions by and distributions to the owners of the Company	-	-	-	-
Dividend	-	-	-	-
Profit and total Comprehensive income for the year	-	-	(10,029)	(10,029)
Balance as at 31 December 2020	18,000	2,002,000	735,017	2,755,017

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

2.4 Cash flow statement for the year ended 31 December 2020

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

			2020		2019
		€	€	€	€
Cash flow from operating activities					
Net result for the year			(10,029)		810,748
Adjustments to statement of income					
Corporate income tax	[7]	-		244,624	
(Reversal)/charge of impairment on financial assets		864,207		(151,967)	
Interest income	[8]	(27,531,239)		(27,684,462)	
Interest expense	[8]	26,514,572		26,649,024	
			(152,460)		(942,781)
Interest received		26,896,000		26,896,000	
Interest paid		(25,875,000)		(25,875,000)	
			1,021,000		1,021,000
Change in trade and other receivables	[3]	12,996		(16,206)	
Change in trade creditors and other payables		593		(6,872)	
Income tax paid	[11]	(193,182)		(213,851)	
Change in tax payables		(106,070)		-	
Change in working capital			(285,663)		(236,929)
Net cash flows resulting from operating activities			572,848		652,038
Net increase in cash and cash equivalents			572,848		652,038
Notes to the cash resources					
Cash and cash equivalents at 1 January 2020			1,675,907		1,023,869
Movements in cash			572,848		652,038
Cash and cash equivalents at 31 December 2020			2,248,755		1,675,907

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 S.L., 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, 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 Elisandra Spain V S.L.U. ("the Parent Company"). The senior unsecured debt credit ratings assigned to the Company by Standard & Poor's and Fitch Rating has been BBB- (2019: BBB). On August 17th 2020, the senior unsecured debt credit ratings assigned to the Company by DBRS Morningstar granted BBB (low) (2019: none). The Parent Company is not rated by any rating agency.

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 as, despite the downgrade of the senior unsecured debt credit ratings of the Sister Company by S&P and Fitch in 2020, S&P and Fitch still rate the senior unsecured debt credit ratings of the Sister Company at investment grade. The downgrade of the credit ratings is not related to the current Covid-19 situation as the business of the Sister Company is hardly affected by Covid-19. The downgrade of the Sister Company is mainly caused by a new regulatory haircut in remuneration for the new regulatory period in Spain for the period 2021-2026. In March 2020, the National Markets and Competition Commission in Spain published the regulatory framework for the next regulatory period 2021-2026 which implies continuity with the current remuneration methodology and a haircut to the remuneration base. The haircut was published at 17 December 2020 and will result in an average reduction of c.10% of revenues for the regulatory period 2021-26 and will be applied gradually during the period.

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.

2.5 Notes to the financial statements

Exposure to credit risk

The carrying amount of financial assets and liabilities represents the maximum credit exposure. Despite the increase in IFRS 9 impairment in 2020, the maximum exposure to credit risk remained the same. As disclosed in the Credit Risk section, the increase in IFRS 9 impairment is not related to the current Covid-19 situation but to a regulatory haircut in remuneration for the Sister Company. The maximum exposure to credit risk at the reporting date was:

	31 December 2020	31 December 2019
	€	€
Loan receivables	945,097,731	945,338,100
Interest receivables	11,605,413	11,594,011
Other receivables	3,210	16,206
Cash and cash equivalents	2,248,755	1,675,907
Total	958,955,109	958,624,224

The loan and interest receivables are receivables from the Sister Company and the Parent Company. The other receivables is a receivable from the Sister 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 6 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 parties to which the loans are provided, all operational liabilities and contingencies are expected to be paid as they fall due. The downgrade of the credit ratings of the Sister Company is not related to the current Covid-19 situation as the business of the Sister Company is hardly affected by Covid-19. The downgrade of the Sister Company is mainly caused by a new regulatory haircut in remuneration for the new regulatory period in Spain for the period 2021-2026. In March 2020, the National Markets and Competition Commission in Spain published the regulatory framework for the next regulatory period 2021-2026 which implies continuity with the current remuneration methodology and a haircut to the remuneration base. The haircut was published at 17 December 2020 and will result in an average reduction of c.10% of revenues for the regulatory period 2021-26 and will be applied gradually during the period. The terms on which related party transactions were initiated, are at arms' length. 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. During board meetings the cash flow forecasts are submitted to the director 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 assets, liabilities, income 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.

2.5 Notes to the financial statements

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. As per year-end, the fair values of the 2023 Bonds, 2023 IBLA, 2025 Bonds and 2025 IBLA were affected negatively compared to previous year. The fair value of the 2029 Bonds, 2029 IBLA, 2031 Bonds and 2031 IBLA increased slightly compared to previous year. After balance sheet date, the fair values of the Bonds and IBLA's were further affected. At March 10, 2021, the fair value of the 2023 Bonds and 2023 IBLA was further affected negatively. The fair value of the 2025 Bonds and 2025 IBLA remained at the same level compared to balance sheet date. The fair value of the 2029 Bonds, 2029 IBLA, 2031 Bonds and 2031 IBLA further increased compared to the fair values at balance sheet date. Depending on the further devolvement of the coronavirus disease and other political and economic developments, the fair values of debt instruments as well as the loan receivables might be further affected subsequent to the date of this report.

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 Company'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 Director's 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 24 March 2021.

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, unless stated otherwise.

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.

2.5 Notes to the financial statements

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 2020 and 31 December 2019 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.

Non-derivative financial assets – recognition and derecognition
The Company initially recognises the loan receivables 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.

2.5 Notes to the financial statements

Loan 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 Company applies the general accepted loss model (Expected Credit Losses or "ECL") to its loans receivables. The amount of ECL's recognized as a loss allowance depends on the extent of credit deterioration since initial recognition. 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 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 measured at nominal value, at the substantially enacted rate applicable. The 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. Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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 Cooperatieve Rabobank U.A. which has been granted a long-term A+ rating by Standards & Poor’s Ratings Services and a long-term A+ 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.

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

2.5 Notes to the financial statements

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. Other finance expenses are recognised when the obligation of 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.

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 and the IBLA March 2031 and Loan Receivable Sister Company 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 (increase in credit risk) and is implemented by assessment at the counterparty level.

2.5 Notes to the financial statements

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 and Sister Company. During the year under review, S&P and Fitch downgraded the senior unsecured debt credit ratings assigned to the Sister Company from BBB to BBB-. Management reassessed the parameters used in its Expected Credit Loss model as part of the IFRS 9 impairment calculation, taking into account a downgrade of credit ratings of the Sister Company. After careful consideration,management decided to increase the Probability of Default to 0.25%, corresponding to a credit rating of BBB- as assigned by S&P to the Sister Company (2019: 0.16% for BBB). As the Parent Company is not separately rated by the rating agencies, the Board of Directors considered a Probability of Default for 2020 equal to the Probability of Default applied for the Sister Company. Despite the downgrade of the long-term credit ratings by both S&P and Fitch, a lower medium grade credit risk applies since the bonds are still rated at investment grade by S&P.

The impact as per December 31, 2020 was an increase in the IFRS 9 impairment for financial assets of approximately EUR 0.86 million (2019: decrease EUR 0.15 million) with the corresponding increase in the deferred tax asset of approximately EUR 0.20 million (2019: decrease EUR 0.03 million). This resulted in a net decrease of approximately EUR 0.67 million (2019: increase EUR 0.12 million) in Retained Earnings.

The ECL is calculated as the exposure at default, which is the total exposure EUR 959,100,895 (2019: EUR 958,465,656) multiplied by the Probability of Default of 0.25% (2019: 0.16%) multiplied by the Loss Given Default of 100% (2019: 100%). The Company used a Probability of Default based on the S&P Global Corporate Average Cumulative Default Rates By Rating Modifier (1981-2019).

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 2020, which have 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 the Parent Company and the Sister Company, 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 2020:
- Amendments to IAS 1, Presentation of financial statements
- IAS 8, Accounting policies, changes in accounting estimates and errors
- Amendments to the Conceptual framework

Due to the nature of the changes and amendments made to the above mentioned standards that mostly relate to changes in wording and definitions, nothing has effectively changed for the Company compared to 2019. Therefore, the above mentioned new standards and amendments to standards do not have significant impact on the financial statements.

Standards issued by the IASB/IFRIC, but which are not applicable to the Company:
• Amendments to IFRS 3
IFRS 3 was issued in January 2008 and amended in October 2018 with effective date 1 January 2020. It outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.

Since the Company does not do acquisitions, IFRS 3 is not applicable to the Company.

2.5 Notes to the financial statements

ASSETS

FINANCIAL ASSETS AND INTEREST RECEIVABLES

Financial assets [1a]

	31 December 2020	31 December 2019
	€	€
IBLA Sister Company 4.598% Dec 2023	276,046,246	276,035,470
IBLA Parent Company 1.473% Apr 2025	302,108,608	301,856,305
IBLA Parent Company 2.348% Apr 2029	302,474,886	302,162,180
IBLA Parent Company 3.598% March 2031	76,643,786	76,584,331
Loan receivable Sister Company	1,827,370	1,827,370
Total current and non-current	959,100,896	958,465,656
Less Interest receivable (current)	(11,605,413)	(11,594,011)
Sub total	947,495,483	946,871,645
Impairment IFRS 9	(2,397,752)	(1,533,545)
Total financial assets (non-current)	945,097,731	945,338,100

	31 December 2020		31 December 2019	
	Fair value (*)	Carrying value (**)	Fair value (*)	Carrying value (**)
	€	€	€	€
IBLA Sister Company 4.598% Dec 2023	310,098,250	274,309,884	318,722,250	274,558,343
IBLA Parent Company 1.473% Apr 2025	310,470,000	298,157,128	311,118,000	298,177,127
IBLA Parent Company 2.348% Apr 2029	327,360,000	296,623,861	324,807,000	296,583,883
IBLA Parent Company 3.598% March 2031	89,233,500	74,211,426	88,690,500	74,221,671
Loan receivable Sister Company	1,800,000	1,795,432	1,800,000	1,797,076
	1,038,961,750	945,097,731	1,045,137,750	945,338,100

(*) The comparative fair values of the financial assets per 31 December 2019 as included in the table above have been updated compared to previous years financial statements. The adjustments did not impact the balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement or other disclosures. The fair value amounts are presented net from interest receivables.

(**) The carrying value amounts are presented net from interest receivables and impairment.

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

2.5 Notes to the financial statements

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.

Interest receivables [1b]

	31 December 2020	31 December 2019
	€	€
IBLA Sister Company 4.598% Dec 2023	1,046,246	1,035,470
IBLA Parent Company 1.473% Apr 2025	3,196,208	3,196,208
IBLA Parent Company 2.348% Apr 2029	5,094,838	5,094,838
IBLA Parent Company 3.598% March 2031	2,240,751	2,240,125
Loan receivable Sister Company	27,370	27,370
Total current and non-current	11,605,413	11,594,011

Deferred income tax assets [2]
Due to the fact the Dutch tax authorities are not expected to recognize the IFRS 9 Impairment in general (and the corresponding decrease in result), the fiscal profit is higher than the net result for the year as presented. As a consequence of the increase in IFRS 9 Impairment that is charged in 2020, the deferred tax assets increased with EUR 196,545 to EUR 587,149 (2019: EUR 390,605).

Other receivables [3]
The other receivables relate to an amount to be received as reimbursement for costs incurred under the current IBLA's. As per year-end, an amount of EUR 3,210 still was to be received (2019: nil).

Cash and cash equivalents [4]
Cash and cash equivalents are deposited at the current account held with Cooperatieve Rabobank U.A. The cash balance is freely available to the Company.

2.5 Notes to the financial statements

SHAREHOLDERS' EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY [5]

Share capital

	Number of Ordinary shares	**Total number**
On issue at 01-01-2019	1,800,000	1,800,000
Issued for cash	-	-
On issue at 31-12-2019	1,800,000	1,800,000
Issued for cash	-	-
On issue at 31-12-2020	1,800,000	1,800,000

At 31 December 2020, the authorised share capital comprised 1.8 million ordinary shares (2019: 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 2020 the Company recorded a share premium of EUR 2,002,000 (2019: 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 2020 (2019: EUR 0).

NON-CURRENT LIABILITIES AND INTEREST PAYABLES

Notes payable [6]

	31 December 2020	31 December 2019
	€	€
Bonds December 2023	276,018,531	276,008,749
Bonds April 2025	301,895,961	301,643,658
Bonds April 2029	302,262,239	301,949,534
Bonds March 2031	76,582,144	76,517,362
Total current and non-current	956,758,875	956,119,303
Less Interest payable (current)	(11,063,392)	(11,047,658)
Total non-current	945,695,483	945,071,645

	31 December 2020	31 December 2020	31 December 2019	31 December 2019
	Fair value (*)	Carrying value (**)	Fair value (*)	Carrying value (**)
	€	€	€	€
Bonds December 2023	310,098,250	275,000,000	318,722,250	275,000,000
Bonds April 2025	310,470,000	298,912,400	311,118,000	298,660,096
Bonds April 2029	327,360,000	297,380,048	324,807,000	297,067,342
Bonds March 2031	89,233,500	74,403,035	88,690,500	74,344,206
Loans and borrowings	1,037,161,750	945,695,483	1,043,337,750	945,071,645

2.5 Notes to the financial statements

(*) The comparative fair values of the notes payable per 31 December 2019 as included in the table above have been updated compared to previous years financial statements. The adjustments did not impact the balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement or other disclosures. The fair value amounts are presented net from interest payables.

(**) The carrying value amounts are presented net from interest payables.

Balance as at 31-12-2020	<1yr	1-5yrs	>5yrs	Total
	€	€	€	€
Trade Creditors	24,793	-	-	24,793
Interest Payable	11,063,392	78,750,000	42,750,000	132,563,392
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	11,088,185	653,750,000	417,750,000	1,082,588,185

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

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 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 bonds are valued at amortized cost. As the costs related to the bonds were reimbursed under the IBLA, these were not taken into account determining the Bond value.

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 bonds are valued at amortized cost.

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 bonds are valued at amortized cost.

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 bonds are valued at amortized cost.

Taxes [7]
Taxes relate to Corporate Income Tax (CIT) and Value Added Tax (VAT).

2.5 Notes to the financial statements

Interest income and expenses [8]	2020	2019
Interest income from financial	€	€
assets measured at amortised cost	27,531,239	27,684,462
Interest income	27,531,239	27,684,462

	2020	2019
Interest expense from financial liabilities	€	€
measured at amortised cost	(26,514,572)	(26,649,024)
Interest expense	(26,514,572)	(26,649,024)
Net interest income	1,016,667	1,035,438

Operating costs and expenses [9]	2020	2019
	€	€
Movement in impairment IFRS 9	(864,207)	151,967
Movement in impairment on financial assets	(864,207)	151,967

	2020	2019
	€	€
Wages and salaries	(13,293)	(13,430)
Social premiums	(12,064)	(12,334)
Other costs	(1,279)	(4,447)
Employee benefits expenses	(26,636)	(30,211)

	2020	2019
	€	€
Auditor fees	(51,179)	(44,400)
Administrative fees	(40,967)	(28,068)
Bank charges	(3,947)	(3,774)
Tax services fees	(16,516)	(8,168)
Advisory fees	-	(8,168)
Other expenses	(7,842)	(48)
Interest expenses	(15,402)	(9,196)
Operating expenses	(135,853)	(101,822)

Finance income and expenses [10]	2020	2019
	€	€
Other finance income	122,080	104,350
Finance income	122,080	104,350
Other finance expenses	(122,080)	(104,350)
Finance expense	(122,080)	(104,350)
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. As per year-end, an amount of EUR 3,210 still was to be received.

2.5 Notes to the financial statements

Income tax expense [11]

	2020	2019
Current tax expense	€	€
Current year	-	244,624
Income tax	-	244,624

Reconciliation of effective tax rate

	2020		2019	
	€	%	€	%
Net result for the year	(10,029)		810,748	
Total income tax	-		244,624	
Profit (Loss) excluding income tax	(10,029)		1,055,372	
Income tax using the Company's domestic Rate	-	16.5%	244,624	23.2%
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%	-	0.0%
	-	16.5%	244,624	23.2%

During the financial year, an amount of EUR 193,182 was paid as preliminary corporate income tax. As the total income tax due for the financial year 2020 amounts to EUR 196,545, a payable of EUR 3,363 was recorded in the balance sheet.

The effective tax rate is based on the net result for the year. Due to the increase of the IFRS 9 impairment, the Company recorded a loss for the year of EUR 10,029. Due to the fact the Dutch tax authorities are not expected to recognize the IFRS 9 Impairment (and the corresponding decrease in result), the fiscal profit is higher than the net result for the year as presented. The effective tax rate is 0.0% (2019: 23.2%).

Fair value hierarchy for financial instruments as at 31 December 2020 [12]

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets	€	€	€	€
IBLA December 2023	-	310,098,250	-	310,098,250
IBLA April 2025	-	310,470,000	-	310,470,000
IBLA April 2029	-	327,360,000	-	327,360,000
IBLA March 2031	-	89,233,500	-	89,233,500
Loan receivable Sister Company	-	1,800,000	-	1,800,000
	-	1,038,961,750	-	1,038,961,750

2.5 Notes to the financial statements

Fair value hierarchy for financial instruments as at 31 December 2020 [12]

	Level 1	Level 2	Level 3	Total
Financial liabilities	€	€	€	€
Bonds December 2023	310,098,250	-	-	310,098,250
Bonds April 2025	310,470,000	-	-	310,470,000
Bonds April 2029	327,360,000	-	-	327,360,000
Bonds March 2031	-	89,233,500	-	89,233,500
	947,928,250	89,233,500	-	1,037,161,750

Fair value hierarchy for financial instruments as at 31 December 2019 [13]

	Level 1	Level 2	Level 3	Total
Financial assets	€	€	€	€
IBLA December 2023	-	318,722,250	-	318,722,250
IBLA April 2025	-	311,118,000	-	311,118,000
IBLA April 2029	-	324,807,000	-	324,807,000
IBLA March 2031	-	88,690,500	-	88,690,500
Loan receivable Sister Company	-	1,800,000	-	1,800,000
	-	1,045,137,750	-	1,045,137,750
Financial liabilities				
Bonds December 2023	318,722,250	-	-	318,722,250
Bonds April 2025	311,118,000	-	-	311,118,000
Bonds April 2029	324,807,000	-	-	324,807,000
Bonds March 2031	-	88,690,500	-	88,690,500
	954,647,250	88,690,500	-	1,043,337,750

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 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	€	€	€	€
IBLA	943,302,299	1,037,161,750	943,541,024	1,043,337,750
Loan receivable Sister Company	1,795,432	1,800,000	1,797,076	1,800,000
Interest receivables	11,605,413	11,605,413	11,594,011	11,594,011
Trade and other receivables	3,210	3,210	16,206	16,206
Cash and cash equivalents	2,248,755	2,248,755	1,675,907	1,675,907
Loans and borrowings	(945,695,483)	(1,037,161,750)	(945,071,644)	(1,043,337,750)
Interest payable	(11,063,392)	(11,063,392)	(11,047,658)	(11,047,658)
Trade and other payables	(24,793)	(24,793)	(24,200)	(24,200)
	2,171,441	4,569,193	2,480,722	4,014,266

The fair value of the interest receivables, trade and other receivables, cash and cash equivalents, interest payables 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.

2.5 Notes to the financial statements

Related parties [14]
At the end of 2020 the Company recorded a receivable of EUR 956,706,354 from the Sister Company and Parent Company (2019: EUR 956,932,111).

Off balance sheet assets and liabilities [15]
The Board of Directors has identified no off balance sheet assets and liabilities.

Independent auditor's fee [16]
The audit fee expensed for KPMG Accountants N.V. amounts to EUR 35,490 excluding VAT and out-of-pocket expenses (2019: EUR 35,000).

2020	**KPMG Accountants N.V.**	**Total**
	€	€
Audit of the financial statements	35,490	35,490
Other audit services	-	-
Other non-audited services	-	-
	35,490	35,490

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

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 in relation to 2020 relate to the audit of the 2020 financial statements, regardless of whether the work was performed during the financial year.

Remuneration of managing director [17]

Staff members
The average number of staff employed by the Company in 2020 was one (2019: one). The employee is a resident of the Netherlands and employed in the Netherlands as well.

The Director at the closing of the financial year was:

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

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

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.

2.5 Notes to the financial statements

Covid-19 situation
The Covid-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity. The Company has taken a number of measures to monitor and prevent the effects of the Covid-19 virus, such as safety and health measures (like social distancing and working from home). At this stage, the impact on the business and results of the Company is limited. The Company continues to follow the various national institutes' policies and advice and in parallel will do its upmost to continue operations in the best way.

Subsequent events
There are no other events after the balance sheet date which have an impact on or should be disclosed in the Company's financial statements of 1 January 2020 until 31 December 2020.

Responsibility Check
The director confirms that, to the best of his knowledge:

• The financial statements for the year 2020, 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 Director's 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, 24 March 2021

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

3. Other information

3.1 Proposed appropriation of result

The loss for the year is charged to the retained earnings.

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 IV S.L.U.

Report on the audit of the financial statements 2020 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 2020 and of its result and its cash flows 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 2020 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 2020;
2. the statement of comprehensive income for the year ended 31 December 2020;
3. the cash flow statement for the year ended 31 December 2020;
4. the statement of changes in equity for the year ended 31 December 2020; and
5. the notes comprising a summary of the significant 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.

KPMG Accountants N.V., a Dutch limited liability company registered with the trade register in the Netherlands under number 33263683, is a member firm of the global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Audit approach

Summary

Materiality
— Materiality of EUR 9,650,000
— 1% of Total Assets

Key audit matter
— Valuation of the loans and interest receivables from Elisandra V S.L.U. and Madrileña Red de Gas S.A.U.

Opinion
— Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 9,650,000 (2019: 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 the ultimate Parent Company Elisandra Spain IV 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.

Scope of the audit

We have performed audit procedures ourselves at the level of Madrileña Red de Gas Finance B.V. In addition, we made use of work of the KPMG Spain audit team of Madrileña Red de Gas S.A.U. and Elisandra Spain V S.L.U. for the audit of the recoverability of the loan and interest receivables to Madrileña Red de Gas S.A.U. and Elisandra Spain V S.L.U.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the audit. In this respect we have determined the nature and extent of the specified audit procedures to be carried out by the KPMG Spain audit team of Madrileña Red de Gas S.A.U. and Elisandra Spain V S.L.U.

We sent instructions to the KPMG Spain audit team, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to us. We discussed the work performed with the KPMG Spain audit team and reviewed the reporting and working papers received. During these discussions the planning, risk assessment, procedures performed and findings and observations reported to us were discussed in more detail and evaluated.

By performing the procedures mentioned above, together with additional procedures at the Company level, we have been able to obtain sufficient and appropriate audit evidence about Madrileña Red de Gas Finance B.V.'s financial information to provide an opinion about the annual accounts.

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 IV S.L.U. The key audit matter is not a comprehensive reflection of all matters discussed.

These matters were 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 these matters.

Valuation of the loans and interest receivables from Elisandra V S.L.U. and Madrileña Red de Gas S.A.U

Description

The Company's exposure, in terms of credit risk, to Elisandra 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 at 31 December 2020 of EUR 956,706 thousand (long term receivable and short term receivable) represent 99.70% of the balance sheet total (EUR 956,932 thousand and represented a 99.78% as at 31 December 2019).

The Company's most significant assets are the loans and interest receivables due from the Parent and Sister. In the event that the Parent and Sister can no longer fulfil their financial obligations towards the Company this would 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. Current and future developments of the CoVid-19 outbreak are merely examples of factors that can impact the Company's ability to meet its financial obligations.

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. Given this pervasive impact on the financial statements of the Company, we consider the valuation on the loans provided to the Parent and Sister and their related interest income accrued to be a key audit matter.

Our response

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

- We inquired with the Board of Directors of the Company about their assessment of the valuation of the loans to related parties and interest receivables, based upon their knowledge of the developments in the financial position and cash flows of Parent and Sister companies, considering among others the impact, if any, of the CoVid-19 pandemic, and about their evaluation with respect to the recoverability of the loan receivables and of the interest receivable from Parent and Sister companies;
- We inspected and analysed the Parent and Sister companies' ability to meet its obligations under the loan agreements and their financial position of the Parent and Sister by evaluating its financial figures for the year 2020. In addition, we evaluated the Parent and Sister companies' ability to meet its obligations towards the Company in prior years by evaluating their audited financial statements as at 31 December 2019.Furthermore, we requested and evaluated certain working papers (including CoVid-19 assessment) of the auditor of the Parent and Sister companies, supporting this evaluation;
- 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 the terms and conditions of the loan agreements between the Parent and Sister and the Company;
- We evaluated the long-term credit ratings and outlook of the Sister company, from Standard & Poor's, Fitch and Moody's;
- In addition, we evaluated the appropriateness of the accounting principles applied based on IFRS 9's requirements and the Company's related disclosures as presented in the notes of the financial statements.

Our observations

The results of our audit procedures relating to the valuation of the loan receivables and interest receivables from the Parent and Sister were satisfactory and we concur with the disclosures relating to impairment as included in Note 2.5 of the financial statements.

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 Director's 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 Director's 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 Finance B.V. since the year 2019 (year of incorporation) and have operated as statutory auditor ever since that financial year. On 19 March 2020 we were reappointed by the Annual General Meeting of Shareholders as auditor for the year 2020.

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 of Madrileña Red de Gas Finance B.V. and the Audit Committee of Elisandra Spain IV 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 management 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 IV 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 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-envoorbeelden/standaardpassages/eng_oob_01.pdf.

This description forms part of our auditor’s report.

Amstelveen, 24 March 2021

KPMG Accountants N.V.

E.D.H. Vinke-Smits RA