Madrileña Red de Gas Finance B.V.

Annual report 2018

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

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The Directors of Madrileña Red de Gas Finance B.V. ("the Company") hereby submit the financial statements of the Company for the year ended 31 December 2018. The financial statements are also considered by an audit committee at parent level, which is Elisandra Spain V S.L.U. ("the Parent Company").

General Information
The Company's main activities are to invest and apply funds obtained by the Company in subscriptions for bonds and loans, transferred to group entities for its own account.

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

On 11 September 2013 the Company issued EUR 500 million of EUR 5-year Bonds on the Luxembourg Stock Exchange, with an interest rate of 3.779% per annum. 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 500 million, with an interest rate of 3.877% with the final repayment date at 11 September 2018. 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 proceeds of these issuances were also used by the Company to provide Madrileña Red de Gas S.A.U. 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 proceeds of these issuances 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 an additional EUR 300 million of EUR 8-year Bonds on the Luxembourg Stock Exchange, with an interest rate of 1.375% per annum and EUR 300 million of EUR 12-year Bonds on the Luxembourg Stock Exchange, with an interest rate of 2.25% per annum. Madrileña Red de Gas S.A.U. is the guarantee holder for the Bonds September 2018 and Bonds December 2023 and the receiver of the relating Issuer-Borrower Loan Agreements ("IBLA"). Elisandra Spain V S.L.U. is the guarantee holder for the Bonds April 2025, April 2029, March 2031 and the receiver of the relating IBLA.

The above described September 2013 EUR 500 million 5-year Bonds, December 2013 EUR 275 million 10-year Bonds, March 2016 EUR 75 million 15-year Bonds, April 2017 EUR 300 million 8-year and 12-year Bonds are hereafter referred to as the Bonds.

On 11 September 2018, Madrileña Red de Gas S.A.U. fully redeemed the IBLA 500. The proceeds were used by the Company to fully redeem the EUR 500 million 5-year Bonds.

Within 2018 the Company appointed PricewaterhouseCoopers Accountants N.V. being the Audit firm of the Company.

During 2018 the Board of the Company was represented by three male Directors. Therefore the ratio male/female was below 35%. The composition of the Board is considered on a regularly basis and if needed adjusted based on the knowledge and experience of the Directors and not specifically on gender of the Directors

Staff members
The average number of staff employed by the Company in 2018 was one (2017: one). Staff was working within and not outside the Netherlands for both years.

Financial year 2018
On March 2, 2018 dividends amounting to EUR 724,000 were distributed to the Parent Company. Furthermore, the Company closed its financial accounts for the calender year 2018 with a net result for the year of EUR 1,537,486 (2017: EUR 930,863), resulting in a positive equity position of EUR 1,954,298 as per 31 December 2018 (2017: EUR 3,082,111).

Total gross interest income for the Company for the year was EUR 40,852,906 (2017: EUR 43,515,884). The total gross interest expenses for the Company for the year was EUR 39,501,796 (2017: EUR 42,169,075). The operating costs and expenses decreased to positive EUR 459,816 (2017: EUR 118,991) due to the release of the IFRS 9 impairment on financial assets amounting to EUR 677,165 and are compensated by the net interest income of EUR 1,351,110 (2017: EUR 1,346,809) resulting in a profit before income tax for 2018 of EUR 1,810,926 (2017: EUR 1,227,818). The total of the finance income for the year was EUR 102,825 (2017: 1,137,518) and the total of the finance expenses for the year was EUR 102,825 (2017: 1,137,518).

Risk exposure
Risk Management is managed by the management of the Company. Currently, no risks, which could have adverse impact on the net assets, financial position or results of the Company, have been identified. The risks the company is dealing with are credit risk, liquidity risk and market risk. In order to control and monitor these risks, methods and indicators have been initiated. For a complete and more detailed overview, please refer to the basis of preparation section (2.5) of the financial statements.

Future Developments
The Company is confident in its positive view on future developments of the Company. Based on the liabilities related to the issued bonds and the current loan agreements (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.

As at year-end 2018 the Company had cash balances amounting to EUR 1,023,869 (2017: EUR 821,000) 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.

Based on the above, management is of the opinion that the Company will continue as a going concern for the foreseeable future.

Risk projections
The management 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 has established procedures necessary to apply these guidelines, including clear operating procedures, lines of responsibility and delegated authorities. The management of the Company conducts review of the effectiveness of the system of internal control on a regular basis. 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.

Responsibility Statement
All directors confirm that, to the best of his or her knowledge:
• The financial statements for the year 2018, 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
No subsequent events took place after the balance date.

Amsterdam, 26 April 2019

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

Cozzi, Roberto Maria	as director A	Appointed	31 August 2018

Vidanaarachchi, Ruwantha	as director A	Appointed	18 August 2017

2. Financial Statements

2.1 Balance sheet as at 31 December 2018

(Before result appropriation)

ASSETS		31 December 2018		31 December 2017	
		€	€	€	€
Fixed assets					
Financial assets					
Loan receivables	[1]	944,565,804		945,181,173	
			944,565,804		945,181,173
Current assets					
Receivables					
Loan receivables	[1]	-		500,000,000	
Interest receivable	[1]	11,425,879		17,924,116	
Deferred income tax assets	[1]	421,378		-	
Cash and cash equivalents	[2]	1,023,869		820,814	
			12,871,126		518,744,930
			957,436,930		1,463,926,103

SHAREHOLDER'S EQUITY AND LIABILITIES		31 December 2018		31 December 2017	
		€	€	€	€
Shareholder's equity	[3]				
Share capital		18,000		18,000	
Share premium		2,002,000		2,002,000	
Retained earnings		(1,603,188)		131,248	
Result financial year		1,537,486		930,863	
			1,954,298		3,082,111
Non-current liabilities					
Notes payable	[4]	944,451,316		943,381,173	
			944,451,316		943,381,173
Current liabilities					
Notes payable	[4]	-		500,000,000	
Interest payable	[4]	10,893,964		17,232,311	
Trade creditors		31,072		3,630	
Taxes	[5]	106,280		226,878	
			11,031,316		517,462,819
			957,436,930		1,463,926,103

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

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2.2 Statement of comprehensive income for the year ended 31 December 2018

			2018		2017
		€	€	€	€
Interest income and expense	[6]				
Interest income		40,852,906		43,515,884	
Interest expense		(39,501,796)		(42,169,075)	
Net interest income			1,351,110		1,346,809
Operating costs and expenses	[7]				
Net impairment losses on financial assets		677,165		-	
Employee benefits expenses		(30,070)		(31,058)	
Operating expenses		(187,279)		(87,933)	
			459,816		(118,991)
Operating profit			1,810,926		1,227,818
Finance income and expenses	[8]				
Finance income		102,825		1,137,518	
Finance expense		(102,825)		(1,137,518)	
Net finance result			-		-
Result before tax			1,810,926		1,227,818
Income tax expense	[9]		(273,440)		(296,955)
Net result for the year			1,537,486		930,863
Total comprehensive Income			1,537,486		930,863

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

2.3 Statement of changes in equity for the year ended 31 December 2018

	Issued and fully paid share capital €	Share Premium €	Retained Earnings €	Total €
Balance as at 1 January 2017	18,000	2,002,000	620,248	2,640,248
Contributions by and distributions to the owners of the Company				
Dividends	-	-	(489,000)	(489,000)
Profit and total Comprehensive income for the year	-	-	930,863	930,863
Balance as at 31 December 2017	18,000	2,002,000	1,062,111	3,082,111
Implementation of IFRS 9	-	-	(1,941,299)	(1,941,299)
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				
Dividend	-	-	(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

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

2.4 Cash flow statement for the year ended 31 December 2018

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

		2018	2018	2017	2017
		€	€	€	€
Cash flow from operating activities					
Net result for the year			1,537,486		930,863
Other value changes		(677,165)		-	
Interest income	[6]	(40,852,906)		(43,515,884)	
Interest expense	[6]	39,501,796		42,169,075	
			(2,028,275)		(1,346,809)
Interest received		47,351,143		34,877,503	
Interest paid		(45,840,143)		(33,954,504)	
			1,511,000		922,999
Change in trade and other receivables		-		342,607	
Change in trade and other payables		27,442		(39,930)	
Income tax paid		(419,443)		(221,462)	
Change in tax payables		298,845		314,340	
Change in working capital			(93,156)		395,555
Net cash flows resulting from operating activities			927,055		902,608
Cash flow from investment activities					
Loans issued	[1]	(500,000,000)		(595,077,000)	
Net cash flow resulting from investments			(500,000,000)		(595,077,000)
Cash flow from financing activities					
Dividend paid		(724,000)		(489,000)	
Bonds issued at Luxembourg Stock exchange	[4]	500,000,000		595,077,000	
Net cash flows used in financing activities			499,276,000		594,588,000
Net increase in cash and cash equivalents			203,055		413,608
Notes to the cash resources					
Cash and cash equivalents at 1 January			820,814		407,206
Movements in cash			203,055		413,608
Cash and cash equivalents at 31 December			1,023,869		820,814

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

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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 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 26 April 2019.

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 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. and the IBLA’s which has demonstrated strong financial performance during the last years. Madrileña Red de Gas S.A.U. has been granted a stable long-term BBB rating by Standards & Poor’s Ratings Services and a stable 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.

Madrileña Red de Gas S.A.U. is the guarantee holder for the Bonds September 2018 and Bonds December 2023 and the receiver of the relating Issuer-Borrower Loan Agreements ("IBLA"). Elisandra Spain V S.L.U. is the guarantee holder for the Bonds April 2025, April 2029, March 2031 and the receiver of the relating IBLA.

2.5 Notes to the financial statements

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 2018	31 December 2017
	€	€
Loan receivables	944,565,804	1,445,181,173
Trade and other receivables	-	-
Cash and cash equivalents	1,023,869	820,814
Accrued interest	11,425,879	17,924,116
Total	957,015,552	1,463,926,103

The loan and interest receivable is receivable from Madrileña Red de Gas S.A.U. and Elisandra Spain V S.L.U.

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 Madrileña Red de Gas S.A.U. 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.

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 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 2018 and 31 December 2017 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.

2.5.2 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.

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.

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.

2.5 Notes to the financial statements

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.

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.

2.5 Notes to the financial statements

2.5.3 Change in accounting Principles

New and amended standards adopted by the Company
The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:
- IFRS 9 Financial Instruments
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- Annual Improvements 2014-2016 cycle
- Transfers to Investment Property – Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early. Since only one segment (interest income from Spain) applies to the Company no segment report will be displayed within these Financial Statements. Moreover, the 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 group had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

IFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

IFRS 9 establishes the criteria for the classification, valuation and derecognition of financial assets and liabilities, it introduces new rules for hedge accounting and a new model for the impairment of financial assets.
Being a financial company, any changes in IFRS 9 can have impact on the Company. The version of IFRS 9 issued in 2014 replaces all previous versions and is mandatory from January 1, 2018 onwards.

The Company has chosen not to adopt the new standard in advance, choosing not to restate the comparison for fiscal year 2017, so the adjustment to the carrying amount of financial assets and liabilities is recognized in retained earnings as of January 1, 2018.

(a) Measurement
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 has carried out refinancing operations that, in accordance with the provisions of IAS 39, have been considered as non-substantial, and as a result have not required the modification of the carrying amount of the financial liabilities that were not discharged from the Financial Statements.

2.5 Notes to the financial statements

(b) Impairment of financial assets
The new impairment model requires the recognition of impairment provisions based on Expected Credit Losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The Company will apply the general expected loss model 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 2018 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 its mother company, Elisandra Spain V S.L.U. As of the day of this report, Elisandra Spain V S.L.U. has a very steady and stable credit rating and, therefore, the Company does not expect any significant changes in this credit risk.

The Company's impact as of January 1, 2018 is an increase in the impairment provision for financial assets of approximately EUR 2.6 million with the corresponding increase in the deferred tax asset of approximately EUR 0.64 million euros. This will result in a net increase of approximately EUR 1.9 million in Retained Earnings.

The ECL is calculated as the exposure at default, which is the total exposure (EUR 957,677,195) multiplied by the Propability of Default (being 0.176%) 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.

(c) Other adjustments:
In addition to the impacts above described, those impacts regarding the Deferred Tax Assets and Liabilities, and the recognition of investments using the equity method following IFRS 9, will be adjusted.

(d) Changes in disclosure:
The new standard also introduces extended requirements for disclosures and changes in presentation. They are expected to change the nature and scope of the information revealed by the group about its financial instruments as a consequence of the adoption of the new standard.

In summary, the impact of the adoption of IFRS 9 on the Financial Statements as of January 1, 2018 is as follows:

	31 December, 2017 excl. IFRS 9	*Movements due to adoption IFRS 9*	*1 January 2018 incl. IFRS 9*
Loans to group companies	1,463,105,289	(2,575,065)	1,460,530,224
Deferred income tax assets	-	633,766	633,766
Assets	1,463,105,289	(1,941,299)	1,461,163,990
Bonds and other negotiable securities	1,460,613,484	-	1,460,613,484
Deferred income tax liabilities	-	-	-
Liabilities	1,460,613,484	-	1,460,613,484
Equity	3,082,111	(1,941,299)	1,140,812

2.5 Notes to the financial statements

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 2018, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early. Since only one segment (interest income from Spain) applies to the Company no segment report will be displayed within these Financial Statements. Moreover, the 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.

Standards issued by the IASB/IFRIC, but which are not yet effective:
• IFRS 16 was issued in January 2016. 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.

• IFRS 15 Revenue from Contracts with Customers (1 January 2018)

The IASB has issued a new standard for the recognition of revenue. This standard has replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Since the Company does not hold Contracts with Customers, IFRS 15 is not applicable to the Company.

2.5 Notes to the financial statements

ASSETS

FIXED ASSETS

Financial assets [1]

	31 December 2018	31 December 2017
	€	€
IBLA MRG SAU 3.877% Sept 2018	-	505,997,575
IBLA MRG 4.598% Dec 2023	276,024,694	276,013,919
IBLA Elisandra V 1.473% Apr 2025	301,577,372	301,338,989
IBLA Elisandra V 2.348% Apr 2029	301,767,974	301,494,075
IBLA MRG 3.598% March 2031	76,479,785	76,433,361
Loan Receivable MRG SAU	1,827,370	1,827,370
Total current and non-current	957,677,195	1,463,105,289
IBLA MRG SAU 3.877% Sept 2018	-	(500,000,000)
Less Interest receivable (current)	(11,425,879)	(17,924,116)
Total non-current	946,251,316	945,181,173
Impairment IFRS 9	(1,685,512)	-
	944,565,804	945,181,173

	31 December 2018		31 December 2017	
	Fair value	Carrying value	Fair value	Carrying value
	€	€	€	€
IBLA MRG SAU 3.877% Sept 2018	-	-	519,362,575	505,997,575
IBLA MRG 4.598% Dec 2023	321,996,444	276,024,694	332,971,919	276,013,919
IBLA Elisandra V 1.473% Apr 2025	301,245,339	301,577,372	304,073,021	301,338,989
IBLA Elisandra V 2.348% Apr 2029	306,974,612	301,767,974	311,953,899	301,494,075
IBLA MRG 3.598% March 2031	85,961,151	76,479,785	87,915,954	76,433,361
Loan Receivable MRG SAU	1,827,370	1,827,370	1,827,370	1,827,370
	1,018,004,916	957,677,195	1,558,104,738	1,463,105,289

On 11 September 2013 the Company entered into an IBLA with Madrileña Red de Gas S.A.U. (“MRG”) and an IBLA with Madrileña Red de Gas II S.A.U. for an amount of EUR 500 million. On 29 November 2013 Madrileña Red de Gas S.A.U. and Madrileña Red de Gas II S.A.U. merged, with Madrileña Red de Gas S.A.U. as surviving entity.

The interest rate on the loan was 3.877% and the balance was not secured. Interest on the loan receivable had to be calculated per 11 September, each year until the loan expired on 11 September, 2018. The interest was receivable one business day before 11 September of each year. The loan was fully redeemed on 11 September 2018.

On 4 December 2013 the Company entered into an IBLA with Madrileña Red de Gas S.A.U. 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 Elisandra Spain V S.L.U. 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 Madrilena Red de Gas S.A.U., 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 Elisandra Spain V S.L.U. 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 Elisandra Spain V S.L.U. 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.

Deferred tax assets
The deferred tax assets increased due to the adoption of IFRS 9.

Cash and cash equivalents [2]
Cash and cash equivalents are deposited 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 [3]

Issued capital

	Number of Ordinary shares	Total number
On issue at 01-01-2017	1,800,000	1,800,000
Issued for cash	-	-
On issue at 31-12-2017	1,800,000	1,800,000
Issued for cash	-	-
On issue at 31-12-2018	1,800,000	1,800,000

At 31 December 2018, the authorised share capital comprised 1.8 million ordinary shares (2017: 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.

Dividends
On 02 March 2018, the Company paid a dividend of EUR 724,000 for the period ending 31 December 2018 (2017: EUR 489,000).

LONG-TERM LIABILITIES

Loans and borrowings [4]

	31 December 2018	31 December 2017
	€	€
Bonds September 2018	-	505,839,149
Bonds December 2023	275,998,969	275,989,188
Bonds April 2025	301,366,943	301,127,830
Bonds April 2029	301,559,260	301,283,947
Bonds March 2031	76,420,108	76,373,370
Total current and non-current	955,345,280	1,460,613,484
Bonds September 2018	-	500,000,000
Less Interest payable (current)	(10,893,964)	(17,232,311)
Total non-current	944,451,316	943,381,173

	31 December 2018	31 December 2018	31 December 2017	31 December 2017
	Fair value	Carrying value	Fair value	Carrying value
	€	€	€	€
Bonds September 2018	-	-	519,362,575	505,839,149
Bonds December 2023	321,996,444	275,998,969	332,971,919	275,989,188
Bonds April 2025	301,245,339	301,366,943	304,073,021	301,127,830
Bonds April 2029	306,974,612	301,559,260	311,953,899	301,283,947
Bonds March 2031	85,961,151	76,420,108	87,915,954	76,373,370
Loans and borrowings	1,016,177,546	955,345,280	1,556,277,368	1,460,613,484

2.5 Notes to the financial statements

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 September 2018	-	-	-	-
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

Balance as at 31-12-2017	<1yr	1-5yrs	>5yrs	Total
	€	€	€	€
Trade Creditors	3,630	-	-	3,630
Interest Payable	44,770,000	103,500,000	68,625,000	216,895,000
Bonds September 2018	500,000,000	-	-	500,000,000
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	544,773,630	103,500,000	1,018,625,000	1,666,898,630

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 11 September 2013 for an amount of EUR 500 million with a fixed interest rate of 3.779%. The bonds were repaid in full in September 2018 (five years from the issue date) at their nominal value. 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 [5]
Taxes relate to Corporate Income Tax (CIT) and Value Added Tax (VAT).

2.5 Notes to the financial statements

Interest income and expenses [6]	2018	2017
	€	€
Interest income from financial assets measured at amortised cost	40,852,906	43,515,884
Interest income	40,852,906	43,515,884

	2018	2017
Interest expense from financial liabilities	€	€
measured at amortised cost	(39,501,796)	(42,169,075)
Interest expense	(39,501,796)	(42,169,075)
Net interest income	1,351,110	1,346,809

Operating costs and expenses [7]	2018	2017
	€	€
Release of impairment IFRS 9	889,553	-
Deferred tax	(212,388)	-
Net impairment losses on financial assets	677,165	-

	2018	2017
	€	€
Wages and salaries	(13,452)	(13,451)
Social premiums	(12,285)	(12,990)
Other costs	(4,333)	(4,617)
Employee benefits expenses	(30,070)	(31,058)

	2018	2017
	€	€
Auditor fees	(75,521)	(27,431)
Administrative fees	(28,531)	(51,558)
Bank charges	(3,780)	(3,041)
Tax services fees	-	(3,630)
Other expenses	(12,128)	(79)
Negative interest bank account	(67,319)	(2,194)
Operating expenses	(187,279)	(87,933)

Finance income and expenses [8]	2018	2017
	€	€
Other finance income	102,825	1,137,518
Finance income	102,825	1,137,518
Other finance expenses	(102,825)	(1,137,518)
Finance expense	(102,825)	(1,137,518)
Net finance costs	-	-

The other finance income relate 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, which the Company can reimburse under the IBLA's in place.

2.5 Notes to the financial statements

Income tax expense [9]

	2018	2017
Current tax expense	€	€
Current year	273,440	296,955
Income tax	273,440	296,955

Reconciliation of effective tax rate

	2018		2017	
	€	%	€	%
Net result for the period	1,537,486		930,863	
Total income tax	273,440		296,955	
Profit (Loss) excluding income tax	1,810,926		1,227,818	
Income tax using the Company's domestic Rate	(273,440)	15.1%	(296,955)	24.2%
Prior year adjustments	-	0.0%	-	0.0%
Current year losses for which no deferred tax asset was recognised	-	0.0%	-	0.0%
	(273,440)	15.1%	(296,955)	24.2%

The effective tax rate is based on the net result for the year. The net result for the year is substantially 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 15.1%

Fair value hierarchy for financial instruments as at 31 December 2018 [10]

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets	€	€	€	€
IBLA September 2018	-	-	-	-
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 September 2018	-	-	-	-
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

2.5 Notes to the financial statements

Fair value hierarchy for financial instruments as at 31 December 2017 [10]

	Level 1	Level 2	Level 3	Total
Financial assets	€	€	€	€
IBLA September 2018	-	519,362,575	-	519,362,575
IBLA December 2023	-	332,971,919	-	332,971,919
IBLA April 2025	-	304,073,021	-	304,073,021
IBLA April 2029	-	311,953,899	-	311,953,899
IBLA March 2031	-	87,915,954	-	87,915,954
Loan Receivable MRG SAU	-	1,827,370	-	1,827,370
	-	1,558,104,738	-	1,558,104,738
Financial liabilities				
Bonds September 2018	519,362,575	-	-	519,362,575
Bonds December 2023	332,971,919	-	-	332,971,919
Bonds April 2025	304,073,021			304,073,021
Bonds April 2029	311,953,899			311,953,899
Bonds March 2031	-	87,915,954	-	87,915,954
	1,468,361,414	87,915,954	-	1,556,277,368

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 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	€	€	€	€
IBLA	955,849,825	1,016,177,546	1,461,277,919	1,556,277,368
Loan receivable MRG	1,827,370	1,827,370	1,827,370	1,827,370
Trade and other receivables	-	-	-	-
Cash and cash equivalents	1,023,869	1,023,869	820,814	820,814
Loans and borrowings	(955,345,280)	(1,016,177,546)	(1,460,613,484)	(1,556,277,368)
Trade and other payables	(31,072)	(31,072)	(3,630)	(3,630)
	3,324,712	2,820,167	3,308,989	2,644,554

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 [11]

At the end of 2018 the Company recorded a payable of EUR 2,020,000 (previous year: EUR 2,020,000) which represents a capital injection from the Parent Company as 100% shareholder of the company in order to meet Dutch law requirements.

At the end of 2018 the Company recorded a receivable of EUR 957,677,195 from the Sister Company and Parent Company.

Off balance sheet assets and liabilities [12]

Management has identified no off balance sheet assets and liabilities.

2.5 Notes to the financial statements

Independent auditor's fee [13]
The audit fee expensed for PricewaterhouseCoopers Accountants N.V. amounts to EUR 37,800 (2017: PricewaterhouseCoopers Accountants N.V. EUR 37,000).

2018	**Pricewaterhouse-Coopers Accountants N.V.**	**EY**	**Total**
	€	€	€
Audit of the financial statements	37,800	-	37,800
Other audit services	-	-	-
Tax Services	-	-	-
Other non-audited services	-	-	-
	37,800	-	37,800

2017	**Pricewaterhouse-Coopers Accountants N.V.**	**EY**	**Total**
	€	€	€
Audit of the financial statements	37,000	-	37,000
Other audit services	-	-	-
Tax Services	-	3,630	3,630
Other non-audited services	-	-	-
	37,000	3,630	40,630

The fees listed above relate to the procedures applied to the Company and its consolidated group entities 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 2018 financial statements, regardless of whether the work was performed during the financial year.

Remuneration of managing and supervisory directors [14]

Staff members
The average number of staff employed by the Company in 2018 was one (2017: one). The employee is a resident of the Netherlands and employed in the Netherlands as well.

The Directors at the close 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
Vidanaarachchi, Ruwantha	as director A	Appointed	18 August 2017

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

During 2018 the Board of the Company was represented by three male directors (previous year: three male directors), therefore the ratio male/female was below 35% (previous year: below 35%). The composition of the Board is considered on a regularly basis and if needed adjusted based on the knowledge and experience of the Directors and not specifically on gender of the 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.

Proposal for profit appropriation
The Board of directors proposes, with the approval of the General Meeting of Shareholders, that the profit for the period ending 31 December 2018 amounting to EUR 1,537,486 to be appropriated to the retained earnings, being part of shareholder's equity.

Subsequent events
No subsequent events took place after the balance date.

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

• The financial statements for the year 2018, 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 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").

Amsterdam, 26 April 2019

Verwoest, Martijn Jaap Gijsbertus	as director A	Appointed	7 May 2015
Cozzi, Roberto Maria	as director A	Appointed	31 August 2018
Vidanaarachchi, Ruwantha	as director A	Appointed	18 August 2017

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 profit for the period ending 31 December 2018 amounting to EUR 1,537,486 to be appropriated to the retained earnings, 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 Madrileña Red de Gas Finance B.V.

Report on the financial statements 2018

Our opinion

In our opinion, Madrileña Red de Gas Finance B.V.'s financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, 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 accompanying financial statements 2018 of Madrileña Red de Gas Finance B.V., Amsterdam ('the Company').

The financial statements comprise:

- the balance sheet as at 31 December 2018;
- the following statements for 2018: the statements of comprehensive income and changes in equity and the cash flow statement; and
- the notes, comprising the significant accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

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

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

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Independence

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

Our audit approach

Overview and context

The Company's main activity is the financing of group companies, through bond offerings on the international capital markets. The repayment of the bonds to the investors is guaranteed by Elisandra Spain V S.L.U. as disclosed in note 2.5.1 to the financial statements. We paid specific attention to the areas of focus driven by the operations of the Company, as set out below.

The transition to IFRS 9 characterised the financial year 2018. This affected our audit procedures as described in the section 'Key audit matters'.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 2.5.1 of the financial statements, the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the measurement of expected credit losses, we considered this matter as a key audit matter as set out in the section 'Key audit matters' of this report. Furthermore, we identified the existence of the loans issued as a key audit matter because of the importance of the existence for users of the financial statements.

Other areas of focus, that were not considered as key audit matters, were the adoption and implementation of IFRS 9. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competences, which are needed for the audit of a finance company. We therefore included specialists in the areas of valuation and accounting in our team.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out below.

These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Based on our professional judgement, we determined the materiality for the financial statements as a whole at €9,570,000 (2017: €14,600,000). As a basis for our judgement, we used 1% of total assets. We used total assets as the primary benchmark, a generally accepted auditing practice, based on our analysis of the information needs of the common stakeholders, of which we believe the shareholders and bondholders are the most important ones. Inherent to the nature of the Company's business, the amounts in the financial statements are large in proportion to the income statement line items employee benefits expenses, operating expenses, finance income, finance expenses and income tax expense. Based on qualitative considerations we performed audit procedures on those income statement line items, applying a benchmark of 10% of the total of those expenses.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with management that we would report to them misstatements identified during our audit above €478,000 (2017: €730,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to management. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

Due to the nature of the Company, key audit matters do not change significantly year over year. As compared to last year, there have been no changes in key audit matters.

Key audit matter	***How our audit addressed the matter***
Measurement of expected credit losses *Note 1* We consider the valuation of the loans issued, as disclosed in note 1 to the financial statements for a total amount of €944,565,804, to be a key audit matter. This is due to the size of the loan portfolio and impairment rules introduced by IFRS 9. Management has determined that all loans issued are categorised as stage 1 loans, hence only a 12-month expected credit loss ('ECL') has been recognised.	We performed the following procedures to test management's assessment of the expected credit loss to support the valuation of the loans issued to Elisandra Spain V S.L.U. group companies: • With respect to the ECL calculation, we determined that the loans qualify as stage 1 loans by assessing the actual performance of the loans (i.e. no significant deterioration of credit risk).

Key audit matter	*How our audit addressed the matter*
The new impairment rules in IFRS 9 lead to an increase in complexity and in the degree of judgement required to calculate the ECL. Amongst other things, this applies to choices and judgements made in the impairment methodology, including the determination of the probability of default ('PD'), the loss-given default ('LGD') and the exposure at default ('EAD'). With the introduction of IFRS 9, these calculations must also take into account forward-looking information ('FLI') of macro-economic factors considering multiple scenarios. Mainly with respect to the PD and LGD used in the determination of the ECLs, management has applied significant judgement given the low default character of the Company's loan portfolio. As a result, there is limited internal historical data to support and back-test the PD and LGD. In the absence of internal historical losses and default information, management used data from external data source providers in determining the ECL.	• We evaluated the financial position of the counterparties of loans issued by assessing observable data from rating agencies, developments in credit spreads, the latest available financial information and other publicly available data in order to assess if there are no adverse conditions present suggesting to classify the loans as stage 2 or stage 3 loans. • For the expected credit loss, we assessed that the impairment methodology and model applied by the Company were in accordance with the requirements of IFRS 9. We assessed that the FLI used by the Company as part of the impairment methodology was appropriate considering the characteristics of the loan portfolio of Madrileña Red de Gas Finance B.V. • We assessed for a sample of financial instruments that the PD and LGD, applied by management, were based upon data from external data source providers and we have recalculated the impairment recorded in the financial statements. We found management's assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences.
Existence of the loans issued *Note 1* We consider the existence of the loans issued, as disclosed in note 1 to the financial statements for a total amount of €944,565,804, to be a key audit matter. Significant auditor's attention is necessary because of the size of the loan portfolio and the importance of the existence for users of the financial statements.	We performed the following procedures to support the existence of the loans issued to Elisandra Spain V S.L.U. group companies: • We confirmed the existence of the loans with the counterparties on a sample basis. • We performed a substantive analytical procedure on the relationship between the interest expenses versus interest income, taken into consideration the applicable spread. • We compared interest receipts with bank statements. Based on the procedures as set out above, we found no material differences.

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; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is 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 in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our 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 such procedures was substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Madrileña Red de Gas Finance B.V. following the passing of a resolution by the shareholders at the annual meeting held on 24 February 2017. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 3 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 13 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of management

Management is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and 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, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going-concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Management 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.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 26 April 2019
PricewaterhouseCoopers Accountants N.V.

Original has been signed by M.P.A. Corver RA

Appendix to our auditor’s report on the financial statements 2018 of Madrileña Red de Gas Finance B.V.

In addition to what is included in our auditor’s report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor’s responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management’s use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor’s report.

We provide management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.