Redexis Gas Finance B.V., Amsterdam

Annual report 2019

13March 2020
This report contains 24 pages

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Document to which our report
1693691 20W00169063RTM dated
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Contents

The Board of Management report

The Board of Management of Redexis Gas Finance B.V. (further named ‘the Company’) hereby presents its Board of Management report, financial statements and other information for the year ended 31 December 2019.

General information

The Company was incorporated on 10 March 2014. The principal activity of the Company is to issue and manage notes and other financial instruments, and to lend the funds to sister company Redexis Gas S.A. The Company and Redexis Gas S.A. are owned by the same shareholders.

Shareholders information

The Company’s shareholders did not change during the current year. As at 31 December 2019, the Company has the following shareholders: Chase Gas Investment Ltd. (33.3%), ATP Infrastructure II ApS (33.4%), and Guotong Romeo Holdings Limited (33.3%).

Financial information

In the beginning of April 2014 the Company launched an Euro Medium Term Note Programme (EMTN) of € 2 billion.

On 8 April 2014, a first tranche of Bonds was issued under this programme for € 650 million at a discount of 0.627% and at a nominal interest rate of 2.75%. Interest on the Bonds is due on 8 April of each year till the maturity date of 8 April 2021.

On 25 April 2015, a second tranche of Bonds was issued under the programme for an amount of € 250 million at a discount of 1.08% and at a nominal interest rate of 1.875%. Interest on the Bonds is due on 27 April of each year till the maturity date of 27 April 2027.

On 1 December 2017, a third tranche of Bonds was issued under the programme for an amount of € 250 million and accrued interest of € 2.8 million at a discount of 1.243% and at a nominal interest rate of 1.875%. Interest on the Bonds is due on 27 April of each year till the maturity date of 27 April 2027.

The proceeds of the Bonds are lent to Redexis Gas S.A. and Redexis Gas S.A. provided an unconditional and irrevocable guarantee for the benefit of all Bondholders with respect to the prescribed and punctual repayment of the Bonds (including interest) issued by Redexis Gas Finance B.V.

The mark-up between the rates of borrowing and lending is 0.118% for the first tranche of Bonds and 0.114% for the second and the third tranche of Bonds, which is sufficient to cover the operating expenses and provide for profits.

The Company has equity of € 4 million (2018: € 3.4 million) and realized a profit after tax amounting up to € 0.6 million (2018: € 0.6 million).

No dividends were paid during the current year (2018: no dividends). The Board of Management will propose to the shareholders to appropriate the result of the current year to the retained earnings.

Significant risks and uncertainties

With respect to the activities the Company faces the following main risks:

- Credit risk;
- Liquidity risk; and
- Interest rate risk.

Credit risk

The Company has three significant loans receivable from Redexis Gas S.A. (related party) for a total nominal value of € 1.150 million (2018: € 1.150 million). The possibility to repay the loans depends on the operational performance of Redexis Gas S.A. and its subsidiaries ("the Group"). The Group's main activity is distribution and transmission of natural gas, which is a regulated activity in Spain. Operating results could be materially affected by changes in laws, regulations or regulatory policies that apply to its business.

On 5 July 2019, Spain's National Authority for Markets and Competition (CNMC) proposed a remuneration reform for the gas sector, with proposal to cutting the fixed rates of return on the transport and distribution of gas and electricity over the 2021-2026 regulatory period for distribution system operators ("DSO's") and transmission system operators ("TSO's"). The reform for TSO's was endorsed and became final on 23 December 2019, with a remuneration scheme that follows the current scheme, though the watchdog agreed to lower to 10% the cuts it will impose on natural gas distributors' fixed rates of return in the 2021-2026 regulatory period. The CNMC initially proposed cuts of 18% on 5 July 2019.

The rating agency S&P assigned a credit rating to Redexis Gas S.A. The rating assigned as per 25 July 2019, the most recent S&P rating available, is BBB- (2018: BBB on 20 November 2018). The outlook is stable.

Other risks that the Group faces that could impact the financial performance, are the risks of not obtaining regulatory approvals to make new investments in the gas network or not being able to complete investment projects, the development of gas demand and environmental and health and safety risks.

The Board of Management has made, in close cooperation with the Management of the Group, an assessment of the above risks and the expected cash flows of the Group during the period of the loan. Based on this and the above mentioned credit rating for the Group, the Board of Management has concluded that the overall credit risk is low.

Liquidity risk

The main liquidity risk that the Company faces is that it does not have sufficient cash to pay the interest and principal on the Bonds when these are due. The Board of Management therefore closely monitors the liquidity position of the Company in the days prior to the interest due date and maturity date in order to ensure that it will collect the interest and principal from Redexis Gas S.A. prior to the interest due date and maturity date.

The interest receipt from the loans and the interest payment dates of the Bonds are contractually aligned, as are the maturity dates. The Board of Management therefore considers the liquidity risk to be low.

Interest rate risk

The interest rate on the first tranche of Bonds issued on the market is fixed at 2.75% and for the second and third tranche at 1.875%. The interest on the loans to Redexis Gas S.A. holds a mark-up of 0.118% for the first tranche of Bonds and 0.114% for the second and the third tranche of Bonds. The Board of Management considers the interest rate risk as low due to the fixed interest rates and the mark-up on loans receivables versus payables.

Disclosure and publication requirements

The Company has elected Luxembourg as its home member state in respect of its EMTN Programme. As a result, the Company must provide the regulated part of the Luxembourg authority that monitors the financial industry, the Commission de Surveillance du Secteur Financier (the CSSF), with certain information on an ongoing basis.

Furthermore, the Company has chosen Luxembourg as its home member state for the Transparency Directive purposes and therefore has to comply with disclosure, storage and filing obligations with respect to regulated information.

As the notes issued have a denomination per unit of € 100,000, the Company can use the Wholesale Exemption and doesn't have to provide annual financial reports with the CSSF.

Corporate Governance

Based on EU law the Company is considered to be an organization of public interest as it issued financial instruments that are quoted on the Luxembourg Stock Exchange.

Based on article 2 of the EC Directive 2006/43/EC Implementation Decree of 26 July 2008 (the Decree) concerning audit of annual accounts, organizations of public interest have to set up an audit committee and have to comply with parts of the Dutch Corporate Governance Code.

As an alternative for the audit committee a company can appoint another body of the Company to perform the role of the "audit committee" and at least one member of that body must be independent within the meaning of best practice provision III.2.2 of the Dutch Corporate Governance Code (the NCGC).

Compliance with the Dutch Corporate Governance Code

As per article 2 of the Decree, the Company has to comply with articles III 5.4 subs a, b, c, f, article III 5.7 and principles V.2 and V.4 of the Dutch Corporate Governance Code.

Article III 5.4 describes the duties of the "audit committee". Article III 5.7 determines that at least one of the members should be a financial expert as described in article III 3.2. The principles V2 and V4 concern the relation between the Committee and the external auditor.

Financial Accounting Supervision Committee

The Board of Management of the Company created a Financial Accounting Supervision Committee (the "committee" or "FASC") and set up the Terms of reference of this committee. The FASC is the Company's equivalent of the 'audit committee' as required under the EC directive referred to before.

In these Terms of reference, rules have been laid down with respect to the composition, meetings and the duties and powers of the FASC, all in accordance with article 2 of the Decree.

As at 31 December 2019, the committee consists of three members, being Mr. R. Meijer, Mr. E. Honing and Mr. M. Smit.

Mr. R. Meijer is chairman and is independent of the Company's management, corporate service provider and auditors. Mr. R. Meijer is a certified accountant-in-business ('Registeraccountant') and is considered to be a financial expert.

Mr. E. Honing and Mr. M. Smit are employees of the corporate service provider (Vistra Management Services (Netherlands) B.V.). Mr. E. Honing holds a LLM degree from the University of Utrecht and Mr. M. Smit graduated bachelor.

The main tasks of the committee are monitoring of the process of the financial reporting, the internal control system and monitoring of the audit of the financial statements.

The members of the committee are appointed by the Board of Management of the Company subject to approval of the General Meeting, in accordance with its Articles of Association and may only exercise powers that are explicitly attributed or delegated to it by the Board of Management. The committee reports its findings and recommendations to the Board of Management and also has a yearly meeting with the external auditors.

The Board of Management is of the view that the composition of the committee is and that the performance of the tasks has been in accordance with the legal requirements set in the EU directive, local law and the applicable parts of the Dutch Corporate Governance Code.

Internal control

The Company has implemented a system of internal control that provides reasonable assurance of effective and efficient operations, and compliance with laws and regulations. This internal control ensures that risk is properly measured and managed.

The Board of Management and FASC composition

We highlight that currently the Board of Management consists of one woman and two men and all FASC members are male. The Company believes that the composition of its Board and FASC has a broad diversity of experience, expertise and background, and that the backgrounds and qualifications of the Board of Management and FASC members, considered as a group, provide a significant mix of experience, knowledge, abilities and independence that we believe our Board of Management and FASC to fulfil its responsibilities and properly execute its duties. The Company has a policy to appoint directors based on quality over gender and will continue to ensure the diversity in the Board of Management and FASC.

Research and development

The Company does not invest in research and development, as the sole purpose is to arrange finance for related entities.

Environmental and personnel-related information

The Company, based on her sole purpose and activities, does not have environmental related affairs. In respect of personnel we refer to note 14 of the financial statements.

Information concerning application of code of conduct

The Company voluntarily follows the code of conduct as issued by The Monitoring Commissie Corporate Governance Code. No issues are noted in respect of compliance with the code of conduct followed.

Statement ex Article 5:25c Paragraph 2 sub c1-2 Financial Markets Supervision Act ('Wet op het Financieel Toezicht')

To our knowledge,

- the financial statements give a true and fair view of assets, liabilities, financial position and result of the Company;
- the Board of Management report gives a true and fair view of the Company's position as per 31 December 2019 and developments during the financial year ending 31 December 2019; and
- the Board of Management report describes the material risks the issuer is facing.

Outlook

The Company has no new financing activities planned for the near future. The Company will continue to explore financing activities with Redexis Gas S.A. and with regard to the EMTN Programme.

Amsterdam, 13 March 2020

The Board of Management:

J.W. Sterk

A. España

D.M.A. Spreeuwers

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Balance sheet as at 31 December 2019

(before profit appropriation)

		31 Dec 2019		31 Dec 2018	
		EUR	EUR	EUR	EUR
Fixed assets					
Loans to related companies	*2*	1,148,035,552		1,146,581,743	
			1,148,035,552		*1,146,581,743*
Current assets					
Trade and other receivables	*3*	17,404,929		17,523,718	
Cash and cash equivalents	*4*	1,048,771		389,525	
			18,453,700		*17,913,243*
Total assets			**1,166,489,252**		**1,164,494,986**
Equity	*5*				
Share capital		1,000		1,000	
Share premium		2,000,000		2,000,000	
Other reserves		1,422,465		805,410	
Result for the year		618,026		617,055	
			4,041,491		*3,423,465*
Non-current liabilities	*6*	1,145,675,903		1,144,295,890	
			1,145,675,903		*1,144,295,890*
Current liabilities	*7*	16,771,858		16,775,631	
			16,771,858		*16,775,631*
Total equity and liabilities			**1,166,489,252**		**1,164,494,986**

The notes on pages 10 to 23 are an integral part of these financial statements.

Profit and loss account for the year ending 31 December 2019

		2019		2018	
		EUR	EUR	EUR	EUR
Financial income	*10*				
Interest income on-loan agreement		29,556,780		29,520,169	
Interest income from shareholders		80,334		77,672	
			29,637,114		*29,597,841*
Financial expenses	*11*				
Interest expenses on Bonds		-28,630,012		-28,594,328	
			-28,630,012		*-28,594,328*
Net financial income			**1,007,102**		**1,003,513**
Administrative and general expenses	*12*		-188,537		-195,410
Profit or (loss) before tax			**818,565**		**808,103**
Tax on result	*13*		-200,539		-191,048
Profit or (loss) after tax			**618,026**		**617,055**

The notes on pages 10 to 23 are an integral part of these financial statements.

Cash flow statement for the year ending 31 December 2019

			2019		2018
		EUR	EUR	EUR	EUR
Profit or (loss) after tax			618,026		617,055
Adjusted for:					
Amortisation financing fees loans receivable	*2*	*-1,375,281*		-1,338,669	
Amortisation financing fees Bonds	*6*	*1,380,012*		1,344,328	
Capitalized interest	*2*	*-78,528*		-75,926	
Current liabilities		*-3,772*		*-30,946*	
Accrued interest, net		*-933,307*		*-933,247*	
Other receivables	*3*	*120,596*		*-120,596*	
			-890,280		*-1,155,056*
Cash flow from business operations:			*-272,254*		*-538,001*
Interest received		*28,181,500*		28,060,555	
Interest paid		*-27,250,000*		*-27,250,000*	
			931,500		*810,555*
Cash flow from operating activities			*659,246*		*272,554*
Cash flow from investment activities			-		-
Cash flow from financing activities			-		-
Movements in cash and cash equivalents			**659,246**		**272,554**
Notes to the cash resources					
Cash and cash equivalents at 1 January			389,525		116,971
Movements in cash and cash equivalents			659,246		272,554
Cash and cash equivalents at 31 December			1,048,771		389,525

The notes on pages 10 to 23 are an integral part of these financial statements.

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Notes to the 2019 financial statements

1. General

Reporting entity and relationship with parent company

Redexis Gas Finance B.V. (further named: 'the Company') was incorporated on 10 March 2014 and is registered with the Dutch trade register under the file number 60182733. The principal activity of the Company is to issue and manage notes and other financial instruments, and to lend the funds to group companies.

The Company, having its legal address at Strawinskylaan 3127, Atrium Building 8th floor, 1077 ZX Amsterdam, The Netherlands, is a private limited liability company under Dutch law, with shareholders:

- ATP Infrastructure II ApS 33.4%, (ultimately owned by Arbejdsmarkedets Tillaegspension) (2018: 33.4%),
- Chase Gas Investment Ltd. 33.3%, (ultimately owned by Universities Superannuation Scheme Ltd.) (2018: 33.3%),
- Guotong Romeo Holdings Limited 33.3%, (ultimately owned by Guoxin Guotong Fund LLP and CNIC Corporation Limited) (2018: 33.3%).

The Company is a financing company; the group Company is primarily involved in providing financing to group companies by issuing Bonds to the public on the Luxembourg Stock Exchange.

Financial reporting period

These financial statements cover the year 2019, which ended at the balance sheet date of 31 December 2019.

Basis of preparation

The financial statements have been prepared in accordance with Title 9, Book 2 of the Dutch Civil Code.

The accounting policies applied for measurement of assets and liabilities and determination of results are based on the historical cost convention, unless otherwise stated in the further accounting policies.

Comparative figures

The 2018 figures are, where necessary, reclassified for comparability with the 2019 figures.

Going concern

The Board of Management, in making its assessment, has not identified uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to act as a going concern. As a result the financial statements have been prepared under the going concern assumption.

Euro Medium Term Note Programme

In the beginning of April 2014 the Company launched an Euro Medium Term Note Programme (EMTN) of € 2 billion.

On 8 April 2014, a first tranche of Bonds was issued under this programme for € 650 million at a discount of 0.627% and at a nominal interest rate of 2.75%. Interest on the Bonds is due on 8 April of each year till the maturity date of 8 April 2021.

On 25 April 2015, a second tranche of Bonds was issued under the programme for an amount of € 250 million at a discount of 1.08% and at a nominal interest rate of 1.875%. Interest on the Bonds is due on 27 April of each year till the maturity date of 27 April 2027.

On 1 December 2017, a third tranche of Bonds was issued under the programme for an amount of € 250 million and accrued interest of € 2.8 million at a discount of 1.243% and at a nominal interest rate of 1.875%. Interest on the Bonds is due on 27 April of each year till the maturity date of 27 April 2027.

The proceeds of the Bonds are lent to Redexis Gas S.A. and Redexis Gas S.A. has provided an unconditional and irrevocable guarantee for the benefit of all Bondholders with respect to the prescribed and punctual repayment of the Bonds (including interest) issued by Redexis Gas Finance B.V.

The mark-up between the rates of borrowing and lending is 0.118% for the first tranche of Bonds and 0.114% for the second and the third tranche of Bonds, which is sufficient to cover the operating expenses and provide for profits.

Accounting policies

General

The accounting policies applied for measuring assets and liabilities and profit determination are based on the historical cost convention, unless otherwise stated in the further principles.

An asset is disclosed in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

If a transaction results in a transfer of future economic benefits and or when all risks relating to assets or liabilities transfer to a third party, the asset or liability is no longer included in the balance sheet. Assets and liabilities are not included in the balance sheet if economic benefits are not probable and/or cannot be measured with sufficient reliability.

Revenues and expenses are allocated to the period to which they relate. Revenues are recognized when the Company has transferred the significant risks and rewards of ownership of the goods to the buyer.

Functional and presentation currency

The financial statements are presented in Euros, the Company's functional currency. All financial information in Euros has been rounded to the nearest Euro.

Use of estimates

The preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

The following accounting policies are in the opinion of management the most critical for the purpose of presenting the financial position.

Financial instruments

Financial instruments include loans granted, other receivables, cash items, loans and other financing commitments, trade payables and other amounts payable.

A financial asset or liability is recognised when the contractual rights or obligations in respect of that instrument arise. A financial instrument is no longer recognised when the benefits and risks are transferred or the contract matured.

Financial instruments are initially stated at fair value, including discount or premium and directly attributable transaction costs.

After initial recognition, financial instruments are valued in the manner described below.

The Company has no derivative financial instruments embedded in contracts.

Loans to group companies

Loans to group companies are carried at amortised cost on the basis of the effective interest method, less impairment losses.

Long-term liabilities

Long-term liabilities are stated after their initial recognition at amortised cost on the basis of the effective interest rate method.

Impairment of financial assets

At each balance sheet date the Company assesses whether there is objective evidence that financial assets are impaired.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the statement of comprehensive income.

Financial fixed assets

Loans to related parties are included at amortised cost using the effective interest method, less impairment losses.

Receivables

The accounting policies applied for the valuation of trade and other receivables and securities are described under the heading 'Financial instruments'.

Shareholders' equity

Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss as financial income or expense.

Long-term liabilities

The valuation of long-term liabilities is explained under the heading 'Financial instruments'.

Current liabilities

The valuation of current liabilities is explained under the heading 'Financial instruments'.

Financial income and expenses

Financial income and expenses consists of interest income and expense and amortisation of the financing costs. Interest income and expenses are recognised on a time-weighted basis, taking account of the effective interest rate of the assets and liabilities concerned. When recognising interest charges, allowance is made for transaction costs on loans received. Financing costs are amortised over the duration of the loan- and interest rate cap contracts.

Corporate income tax

Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

If the carrying values of assets and liabilities for financial reporting purposes differ from their values for tax purposes (tax base), this results in temporary differences.

A provision for deferred tax liabilities is recognised for taxable temporary differences.

For deductible temporary differences, unused loss carry forwards and unused tax credits, a deferred tax asset is recognised, but only in so far as it is probable that taxable profits will be available in the future for offset or compensation.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are stated at nominal value.

Cash flow statement

The cash flow statement is prepared using the indirect method. Cash flows in foreign currency are translated into Euros using the weighted average exchange rates at the dates of the transactions.

Cash flows from financial derivatives that are stated as fair value hedges or cash flow hedges are attributed to the same category as the cash flows from the hedged balance sheet items. Cash flows from financial derivatives to which hedge accounting is no longer applied are categorised in accordance with the nature of the instrument as from the date on which the hedge accounting is ended.

Determination of fair values

The fair value of a financial instrument is the price for which an asset can be transferred or a liability can be settled between knowledgeable and well willing parties at arm's length.

A number of the accounting policies and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Bearer Bonds

The fair value of the listed bearer Bonds, which is determined for disclosure purposes, is determined by reference to their quoted bid price at the reporting date. If no quoted bid price at the reporting date is available, the fair value is based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(b) Note

The fair value of the note, which is determined for disclosure purposes, is calculated derived from the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date of the bearer Bonds.

c) Other assets and liabilities

For other assets and liabilities carrying value is assumed to reflect the fair value.

Subsequent events

Events that provide further information on the actual situation at the balance sheet date and that appear before the financial statements are being prepared are recognised in the financial statements.

Events that provide no information on the actual situation at the balance sheet date are not recognised in the financial statements. When those events are relevant for the economic decisions of users of the financial statements, the nature and the estimated financial effects of the events are disclosed in the financial statements.

2. Loans to related companies

Movements in financial fixed assets were as follows:

	Redexis Gas S.A. EUR	Shareholders EUR	Total EUR
Balance as at 31 December 2018:			
Cost price	1,138,897,315	2,000,000	1,140,897,315
Accumulated amortization	5,392,946	-	5,392,946
Capitalized interest	-	291,482	291,482
Carrying amount	**1,144,290,261**	**2,291,482**	**1,146,581,743**
Changes in carrying amount:			
Accumulated amortization	1,375,281	-	1,375,281
Capitalized interest	-	78,528	78,528
Subtotal changes in carrying amount	*1,375,281*	*78,528*	*1,453,809*
Balance as at 31 December 2019:			
Cost price	1,138,897,315	2,000,000	1,140,897,315
Accumulated amortization	6,768,227	-	6,768,227
Capitalized interest	-	370,010	370,010
Carrying amount	**1,145,665,542**	**2,370,010**	**1,148,035,552**

Loan to Redexis Gas S.A.

Redexis Gas S.A. has issued a loan on 8 April 2014 for a term of seven years and for a nominal amount of € 650,000,000. The interest is fixed at 2.75% per year (excluding a variable mark-up), payable on 8 April of each year till maturity. The principal is due in full at maturity date. The loan was issued at a discount rate of 0.627% and financing fees amounted to € 2,598,747. The discount and the fees are amortised over 7 years. The effective interest rate is 2.99%.

On 27 April 2015 a loan has been issued for a term of twelve years and for a nominal value amounting to € 250,000,000. The interest is fixed at 1.875% per year (excluding a variable mark-up), payable on 27 April of each year till maturity. The principal is due in full at maturity date. The loan was issued at a discount rate of 1.080% and financing fees amounted to € 500,000. The discount and the fees are amortized over twelve years. The effective interest rate is 2.08%.

On 1 December 2017 a loan has been issued with the maturity date of 27 April 2027 with a nominal value of € 250,000,000. The interest is fixed at 1.875% per year (excluding a variable mark-up), payable on 27 April of each year till maturity. The principal is due in full at maturity date. The loan was issued at a discount rate of 1.243% and financing fees amounted to € 800,000. The discount and the fees are amortized over ten years. The effective interest rate is 2.01%.

The latest mark-up letter, signed on 01 January 2019, is amended to 0.118% for the first tranche and 0.114% for the second and the third tranche.

Loan to shareholders

On 20 April 2014 the Company lent € 2,000,000 to its shareholders for a term of 7 years and a yearly interest of 3.38%. The loan will be repaid in full on 20 April 2021. The interest is due in cash or can be capitalized on 20 April of each year. During 2019 an amount of € 78,528 (2018: €75,926) has been capitalized on the principal of the loan.

3. Trade and other receivables

	2019 EUR	2018 EUR
Interest receivable from Redexis Gas S.A.	17,350,412	17,350,412
Interest receivable from shareholders	54,517	52,710
Other receivables	-	120,596
	17,404,929	**17,523,718**

The above receivables are due within a year.

4. Cash and cash equivalents

	2019 EUR	2018 EUR
Credit balances on bank accounts	1,048,771	389,525
	1,048,771	**389,525**

Cash and cash equivalents are unencumbered.

5. Equity

	Issued capital EUR	Share premium EUR	Other reserves EUR	Result for the year EUR	Total EUR
Balance as at 31 December 2018	**1,000**	**2,000,000**	**805,410**	**617,055**	**3,423,465**
Changes in financial year 2019:					
Appropriation of prior period result	-	-	617,055	-617,055	-
Result for the year	-	-	-	618,026	618,026
Balance as at 31 December 2019	**1,000**	**2,000,000**	**1,422,465**	**618,026**	**4,041,491**

Issued capital

The Company's authorised capital, amounting to € 1,000, consists of 100,000 ordinary shares of € 0.01 each. Therefore the share capital is fully issued and paid.

Share premium

The share premium concerns a contribution from the shareholders to comply with the minimum equity requirement set in article 8c of the Dutch Corporate Income Tax Act.

Amounts contributed by the shareholders of the Company in excess of the nominal share capital, are accounted for as share premium.

This also includes additional capital contributions by existing shareholders without the issue of shares or issue of rights to acquire or acquire shares of the Company.

Unappropriated

At the General Meeting of Shareholders, it will be proposed to carry forward the profit of € 618,026 to the other reserves.

6. Non-current liabilities

This item relates to the first tranche of Bonds issued to the public on 8 April 2014, the second tranche issued to the public on 27 April 2015 and the third tranche issued to the public on 1 December 2017.

	2019	**2018**
	EUR	**EUR**
Fair value at date of issuance	1,138,897,315	1,138,897,315
Accumulated amortization	6,778,588	5,398,575
Carrying amount	**1,145,675,903**	**1,144,295,890**

	2019	**2018**
	EUR	**EUR**
Bonds payable in 5 years or less	648,691,747	647,691,230
Bonds payable in more than 5 years	496,984,156	496,604,660
	1,145,675,903	**1,144,295,890**

On 8 April 2014 the Company issued Bonds totalling € 650,000,000 as part of the Euro Medium Term Note Programme (“EMTN Programme”). The Bonds mature on 8 April 2021. The Bonds were issued and placed at a discount of 0.627%. The Bonds carry a fixed interest of 2.75%, payable once a year on 8 April till maturity date. The accrued interest is recognised under current liabilities. The financing costs amounted to € 2,598,747. The discount and the fees are amortised over 7 years. The effective interest rate is 2.91%.

On 27 April 2015 the Company issued Bonds totalling € 250,000,000 as part of the EMTN Programme. The Bonds mature on 27 April 2027. The Bonds were issued and placed at a discount of 1.080%. The Bonds carry a fixed interest of 1.875%, payable once a year on 27 April till maturity date. The accrued interest is recognised under current liabilities. The financing costs amounted to € 500,000. The discount and the fees are amortised over 7 years. The effective interest rate is 2.00%.

On 1 December 2017 the Company issued Bonds totalling € 250,000,000 as part of the EMTN Programme. The Bonds mature on 27 April 2027. The Bonds were issued and placed at a discount of 1.243%. The Bonds carry a fixed interest of 1.875%, payable once a year on 27 April till maturity date. The accrued interest is recognised under current liabilities. The financing costs amounted to € 920,596. The discount and the fees are amortised over the useful life of the Bonds. The effective interest rate is 1.93%.

The Company has lent all proceeds received to Redexis Gas S.A. Redexis Gas S.A. has provided an unconditional and irrevocable guarantee for the benefit of all Bondholders with respect to the prescribed and punctual repayment of the Bonds (including interest) issued by Redexis Gas Finance B.V. The Bonds are listed at the Luxembourg Stock Exchange.

7. Current liabilities

	2019	2018
	EUR	EUR
Interest payable accrued on Bonds	16,658,733	16,658,733
Income tax liability	73,484	78,107
Other liabilities	39,641	38,791
	16,771,858	**16,775,631**

8. Commitments and contingencies not included in the balance sheet

The Company has no commitments and contingencies apart from the ones included on the balance sheet.

9. Financial instruments

General

During the normal course of business, the Company uses various financial instruments that expose it to credit and liquidity risks. To control these risks, the Company has instituted a policy including a code of conduct and procedures that are intended to limit the risks of unpredictable adverse developments in the financial markets and thus for the financial performance of the Company.

With respect to the activities the companies faces the following main risks:

- Credit risk;
- Liquidity risk; and
- Interest rate risk.

Credit risk

The Company has three significant loans receivable from Redexis Gas S.A. (related party) for a total nominal value of € 1.150 million (2018: € 1.150 million). The possibility to repay the loans depends on the operational performance of Redexis Gas S.A. and its subsidiaries ("the Group"). The Group's main activity is distribution and transmission of natural gas, which is a regulated activity in Spain. Operating results could be materially affected by changes in laws, regulations or regulatory policies that apply to its business.

On 5 July 2019, Spain's National Authority for Markets and Competition (CNMC) proposed a remuneration reform for the gas sector, with proposal to cutting the fixed rates of return on the transport and distribution of gas and electricityover the 2021-2026 regulatory period for distribution system operators ("DSO's") and transmission system operators ("TSO's"). The reform for TSO's was endorsed and became final on 23 December 2019, with a remuneration scheme that follows the current scheme, though the watchdog agreed to lower to 10% the cuts it will impose on natural gas distributors' fixed rates of return in the 2021-2026 regulatory period. The CNMC initially proposed cuts of 18% on 5 July 2019.

The rating agency S&P assigned a credit rating to Redexis Gas S.A. The rating assigned as per 25 July 2019, the most recent S&P rating available, is BBB- (2018: BBB on 20 November 2018). The outlook is stable.

Other risks that the Group faces that could impact the operational performance, are the risks of not obtaining regulatory approvals to make new investments in the gas network or not being able to complete investment projects, the development of gas demand and environmental and health and safety risks.

The Board of Management has made, in close cooperation with the Management of the Group, an assessment of the above risks and the expected cash flows of the Group during the period of the loan. Based on this and the above mentioned credit rating for the Group, the Board of Management has concluded that the overall credit risk is low.

Liquidity risk

The main liquidity risk that the Company faces is that it does not have sufficient cash to pay the interest and principal on the Bonds when these are due. The Board of Management therefore closely monitors the liquidity position of the Company in the days prior to the interest due date and maturity date in order to ensure that it will collect the interest and principal from Redexis Gas S.A. prior to the interest due date and maturity date.

The interest receipt from the loans and the interest payment dates of the Bonds are contractually aligned, as are the maturity dates. The board of Management therefore considers the liquidity risk to be low.

Interest rate risk

The interest rate on the first tranche of Bonds issued on the market is fixed at 2.75% and for the second and third tranche at 1.875%. The interest on the loan to Redexis Gas S.A. holds a mark-up of 0.118% for the first tranche of Bonds and 0.114% for the second and the third tranche of Bonds. The Board of Management considers the interest rate risk as low due to the fixed interest rates and the mark-up on loans receivables versus payables.

Fair values

The fair value of the first tranche of the quoted Bonds as at 31 December 2019, derived from the Luxembourg Stock Exchange (based on a nominal value per Bond of € 100), amounts to € 102.889 (2018: € 104.054). The fair value of the second and third tranche amounts to € 103.233 (2018: € 95.325). This translates into a fair value amounting to € 1,184.94 million (2018: € 1,152.98 million) for all tranches.

The fair value as quoted above is derived from the price of the Bonds as listed on the Luxembourg Stock Exchange per 31 December 2019. The fair value of all other financial instruments approximates their nominal value.

10. Financial income

	2019	2018
	EUR	**EUR**
Interest loan to Redexis Gas S.A.	29,556,780	29,520,169
Interest loan to shareholders	80,334	77,672
	29,637,114	**29,597,841**

11. Financial expenses

	2019 EUR	2018 EUR
Interest expenses on Bonds	28,630,012	28,594,328
	28,630,012	**28,594,328**

12. Administrative and general expenses

	2019 EUR	2018 EUR
Fee for management and administration	71,847	79,371
Audit fee	77,174	35,899
Tax advisory fees	12,637	4,445
Legal fees	-	58,553
Other fees	26,879	17,142
	188,537	**195,410**

13. Tax on result

	2019 EUR	2018 EUR
Tax liability for current financial year	200,539	191,048
	200,539	**191,048**

The Company applies a margin on its financing activities of 0.081% (2018: 0.081%). This margin minus the administrative and general expenses is the tax base for corporate income tax.

The effective tax rate is equal to the nominal tax rate taking into account that over the first €200,000 of profit the Company has to pay 19% (2018: 20%) tax and 25% (2018: 25%) over the remainder.

14. Other notes

The Company had no employees during the current year (2018: no employees). No remuneration has been paid to current or former board members of the Company during the current year (2018: no remuneration).

15. Transactions with related parties

The principal activity of the Company is to issue and manage notes and other financial instruments, and to lend the proceeds to a related company, Redexis Gas S.A. All related party transactions took place at an arm's length basis.

As at 31 December 2019, the Company lent Redexis Gas S.A. € 1.150 million nominal value (2018: € 1.150 million) and shareholders € 2,370,010 (2018: € 2,291,482).

For the year ending 31 December 2019, the Company recognized interest income from Redexis Gas S.A. of € 29,556,780 (2018: € 29,520,169) and from the shareholders of € 80,334 (2018: € 77,672).

The Company has a service contract with Vistra Management Services (Netherlands) B.V., Amsterdam, Netherlands, for management support. Vistra provides management, domiciliation, accounting and corporate secretarial services. The fee per annum is approximately € 72 thousand (2018: € 79 thousand).

16. Auditor's fees

	2019 EUR	2018 EUR
Audit services	42,898	41,815
Audit related services	10,000	-
	52,898	**41,815**

KPMG Accountants N.V. audit fee is € 43 thousand (2018: € 42 thousand). This information is disclosed as referred to in section 2:382a (1) and (2) of the Dutch Civil Code.

The audit related fees in 2019 are an additional engagement on the update of the EMTN Programme base prospectus.

17. Subsequent events

No relevant subsequent events occurred after balance sheet date that would require disclosure in or change of the financial statements.

Amsterdam, 13 March 2020,

The Board of Management:

J.W. Sterk

A. España

D.M.A. Spreeuwers

Other information

Provisions in the Articles of Association governing the appropriation of profit

Under article 18 of the Company's Articles of Association, the profit is at the disposal of the General Meeting of Shareholders, which can allocate said profit either wholly or partly to the formation of – or addition to – one or more general or special reserve funds.

Independent auditor's report

The independent auditor's report is included in the next pages.

Independent auditor's report

To: the General Meeting of Shareholders and the Financial Accounting Supervision Committee of Redexis Gas Finance B.V.

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

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Redexis Gas Finance B.V. as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

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

The financial statements comprise:

1 the balance sheet as at 31 December 2019;

2 the profit and loss account for the year ended 31 December 2019; and

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

Basis for our opinion

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

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

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

Audit approach

Summary

Materiality
— Materiality of EUR 17,400,000
— 1.5% of total assets

Key audit matters
— Recoverability of the loans to related companies and interest income accrued from Redexis Gas S.A.

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 17,400,000 (2018: EUR 17,500,000). The materiality is determined with reference to 1.5% of total assets (2018: 1.5% of total assets).

We consider total assets, which mainly include accounts related to financing activities, as an appropriate benchmark given the activities of Redexis 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 Financial Accounting Supervision Committee of Redexis Gas Finance B.V. that misstatements in excess of EUR 870,000 (2018: EUR 875,000), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matter to the Financial Accounting Supervision Committee of Redexis Gas Finance B.V. The key audit matter is not a comprehensive reflection of all matters discussed.

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

Recoverability of loans to related companies and interest accrued receivable from Redexis Gas S.A.

Description

The Company's exposure, in terms of credit risk, to Redexis Gas S.A. (a related party) may have a significant effect on the Company's financial statements. The outstanding balances (loans to related companies and interest income accrued) of EUR 1,165,440,481 represent 99.91% of the balance sheet total.

The Company's most significant assets are the loans and interest accrued receivable from Redexis Gas S.A. The event of an insolvency of Redexis Gas S.A. could therefore have a significant impact on the Company.

The Company's ability to meet its financial obligations depends on the cash flow generated from interest income from, and repayment of the loans by Redexis Gas S.A.

As such, the risk of a financial loss of the Company is significant, when Redexis Gas S.A. fails to meet its contractual obligations towards the Company. Given this pervasive impact on the financial statements of the Company, we consider the valuation of the loans provided to Redexis Gas S.A. and the related interest income accrued for a key audit matter.

Our response

After evaluation of the design and implementation of the controls regarding the recoverability assessment by management in respect of the loans and the interest income accrued receivable, we performed, amongst others, the following substantive audit procedures with respect to management's assessment of the recoverability of the loans and the related interest income accrued from Redexis Gas S.A.:

- Inquired with the Board of Management of the Company about their assessment of the recoverability of the loans to related companies and interest income accrued, based upon their knowledge of the developments in the financial position and cash flows of Redexis Gas S.A., and about their evaluation with respect to the recoverability of the loans and the interest income accrued from Redexis Gas S.A.;
- We evaluated the financial position of Redexis Gas S.A. by evaluating its audited financial statements for the year 2019. Furthermore, we requested, received and evaluated certain working papers of the auditor of Redexis Gas S.A., supporting their audit opinion on the 2019 financial statements;
- Inspected the terms and conditions of the loan agreements between Redexis Gas S.A. and the Company;
- Evaluated the long-term credit ratings and outlook of Redexis Gas S.A. from Standard & Poor's;
- In addition, we evaluated the appropriateness of the accounting principles applied for and the Company's disclosures as presented in Note 1 of the financial statements.

Our observation

The result of our audit procedures relating to management's assessment of the recoverability of loans and interest income accrued from Redexis Gas S.A. were satisfactory. Assumptions used by management to assess the recoverability of the loans to related companies and interest income accrued from Redexis Gas S.A. are reasonable.

We evaluated the appropriates of the disclosures in Note 1 of the financial statements in accordance with the Company's accounting policies as set out on pages 11 to 15; we concur with these accounting policies.

Report on the other information included in the annual report

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

— the Board of Management 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 Management is responsible for the preparation of the other information, including the Board of Management 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 Redexis Gas Finance B.V. since the year 2014 (year of incorporation) and have operated as statutory auditor ever since that financial year. On 30 April 2019 we were reappointed by the Annual General Meeting of Shareholders as auditor for the year 2019.

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 Management and the Financial Accounting Supervision Committee for the financial statements

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

The Financial Accounting Supervision Committee is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

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

Rotterdam, 13 March 2020

KPMG Accountants N.V.

E. van Deursen RA