TERÉGA SAS

IFRS consolidated financial statements
Financial years ended 31 December 2017
and 31 December 2018

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1 Consolidated statement of income

In thousands of euros	*Notes*	2018	2017
Revenues	5.5.8	456,872	467,594
Other income	5.10.2	4,007	1,794
Purchases consumed	5.10.3	(39,473)	(29,126)
Personnel expenses	5.10.3	(62,195)	(56,016)
External expenses	5.10.3	(59,073)	(59,797)
Taxes and duties		(14,844)	(14,871)
Allowances for amortisation/depreciation & provisions	5.9.2	(131,645)	(132,773)
Other current operating income and expenses		(3,008)	(2,544)
Current operating profit/loss		**150,640**	**174,261**
Other non-current operating income and expenses		10	(11)
Operating profit/loss		**150,650**	**174,250**
Net financial debt cost	5.9.10	(36,856)	(36,994)
Other financial income and expenses	5.10.4	1,270	18
Pre-tax profit (loss)		**115,065**	**137,274**
Income tax	5.10.5	(65,071)	(45,561)
Net profit/loss for the period		**49,994**	**91,713**
Profit (loss) for the period attributable to:			
- owners of the company		49,994	91,713
- equity interest without control		-	-
Earnings per share		1.02	1.87
Diluted earnings per share		1.02	1.87

In thousands of euros	*Notes*	2018	2017
Net profit/loss		**49,994**	**91,713**
Other elements of comprehensive income:			
Actuarial gains and losses		973	1,770
Impact of deferred taxes	5.9.6	(251)	(512)
Elements not to be reclassified in profit (loss) subsequently		**722**	**1,258**
Total other elements of the comprehensive income		**722**	**1,258**
Total comprehensive income		**50,715**	**92,971**
Attributable to the owners of the company		50,715	92,971
Attributable to equity interests without control		-	-

2 Consolidated statement of financial position

In thousands of euros	Notes	31/12/2018	31/12/2017	01/01/2017
Assets				
Goodwill	5.9.2	420,756	420,756	420,756
Other intangible assets	5.9.2	83,423	75,165	76,465
Tangible assets	5.9.3	2,385,990	2,355,277	2,308,776
Other non-current financial assets		1,151	1,151	1,151
Deferred tax assets	5.9.6	5	4,363	31,987
Non-current assets		**2,891,325**	**2,856,712**	**2,839,135**
Inventory	5.9.4	22,591	21,523	22,923
Other current financial assets		50	57	91
Trade receivables	5.9.5	69,103	48,025	51,897
Current payable tax receivables		2,961	847	1
Other current assets		17,159	1,871	3,077
Cash and cash equivalents	5.9.7	33,680	32,552	64,247
Current assets		**145,544**	**104,876**	**142,237**
Total assets		**3,036,869**	**2,961,588**	**2,981,372**
Shareholder equity and liabilities				
Capital	5.9.8	489,474	489,474	489,474
Reserves	5.9.8	(114,433)	(147,249)	(190,743)
Convertible bonds	5.9.8	670,000	670,000	670,000
profit (loss) for the year attributable to the owners of the company	1	49,994	91,713	99,794
Shareholder equity attributable to the owners of the company		**1,166,087**	**1,174,991**	**1,139,577**
Total shareholder equity		**1,166,087**	**1,174,991**	**1,139,577**
Non-current financial debts	5.9.10	1,423,265	1,430,715	1,438,371
Employee benefits	5.10.6	29,116	25,257	25,189
Deferred tax liabilities	5.9.6	233,171	228,986	276,913
Non-current liabilities		**1,685,552**	**1,684,958**	**1,740,473**
Current financial debts	5.9.10	81,832	31,627	16,482
Current provisions	5.9.9	2,501	1,113	488
Trade payables	5.9.11	66,942	36,280	48,557
Payable tax liabilities		-	-	1,627
Other current liabilities	5.9.12	33,955	32,618	34,168
Current liabilities		**185,230**	**101,639**	**101,322**
Total shareholder equity and liabilities		**3,036,869**	**2,961,588**	**2,981,372**

3 Consolidated statement of changes in shareholders equity

In thousands of euros	Capital	Non-distributed profit (loss)	Actuarial reserves	Convertible bonds	Other reserves	Consolidated reserves	Total	Total shareholder equity
Shareholder equity at 01 January 2017	**489,474**	**(61,470)**	**(3,436)**	**670,000**	**10,344**	**(36,387)**	**1,139,577**	**1,139,577**
Total comprehensive income for the period								
profit (loss)		91,713					91,713	91,713
Total other elements of the comprehensive income			1,258	-	-	-	1,258	1,258
Total comprehensive income for the period	**-**	**91,713**	**1,258**	**-**	**-**	**-**	**92,971**	**92,971**
Interest from convertible bonds (1)						(35,146)	(35,146)	(35,146)
Dividends		(22,026)					(22,026)	(22,026)
Other					(385)		(385)	(385)
Total contributions and distributions from / to owners of the company	**-**	**(22,026)**	**-**	**-**	**(385)**	**(35,146)**	**(57,557)**	**(57,557)**
Shareholder equity at 31 December 2017	**489,474**	**8,216**	**(2,178)**	**670,000**	**9,958**	**(71,532)**	**1,174,991**	**1,174,991**

In thousands of euros	Capital	Non-distributed profit (loss)	Actuarial reserves	Convertible bonds(1)	Other reserves	Consolidated reserves	Total	Total shareholder equity
Shareholder equity at 31 December 2017	**489,474**	**8,216**	**(2,178)**	**670,000**	**9,958**	**(71,533)**	**1,174,991**	**1,174,991**
Total comprehensive income for the period								
Profit (loss)		49,994					49,994	49,994
Total other elements of the comprehensive income			722				722	722
Total comprehensive income for the period	**-**	**49,994**	**722**	**-**	**-**	**-**	**50,715**	**50,715**
Issue of ordinary shares								
Interest from convertible bonds (1)						(35,146)	(35,146)	(35,146)
Dividends		(24,474)					(24,474)	(24,474)
Other					-		-	-
Total contributions and distributions from / to owners of the company	**-**	**(24,474)**	**-**	**-**	**-**	**(35,146)**	**(59,619)**	**(59,619)**
Shareholder equity at 31 December 2018	**489,474**	**33,736**	**(1,456)**	**670,000**	**9,958**	**(106,678)**	**1,166,087**	**1,166,087**

(1) Convertible bonds issued by the Group are considered as equity instruments according to IAS 39. The nominal sum as well as the interest paid (after tax) are therefore classed as shareholder equity (see note 5.9.8 Capital and reserves). The interest incurred is entered as other debt.

4 Consolidated statement of cash flow

In thousands of euros	*Notes*	31 Dec 18	31 Dec 17	01 Jan 17
Net profit/loss for the period	1	49,994	91,713	99,794
Removal of expenses and income with no cash impact				
Elimination of dividend income		(1,297)	-	
Amortisation/depreciation and provisions	5.9.2 - 5.9.3	135,810	134,366	134,351
Income tax	5.5.11	65,071	45,561	33,664
Financial result	5.10.4	36,883	36,976	37,175
Neutralisation as elements classed as investment flows		1	(1)	493
Change in working capital requirement		(5,464)	(5,689)	10,623
Tax paid		(40,439)	(50,779)	(51,352)
Net cash flow related to operating activities		**240,559**	**252,146**	**264,748**
Acquisition of tangible and intangible assets	5.9.2 - 5.9.3	(183,489)	(178,777)	(119,417)
Transfer of fixed assets		0	10	1,600
Investment grants received		14,926	-	-
Change in loans and other financial assets		6	35	(5-)
Interest received		2	1	3
Dividends received		1,297	6	6
Net cash flow related to investment activities		**(167,257)**	**(178,726)**	**(117,812)**
Dividends paid by the consolidating company		(24,474)	(22,026)	(27,900)
Issue of loans (1)	5.9.10	66,577	(37,182)	(53,183)
Loan repayments (1)		(15,987)	52,322	52,752
Interest paid		(98,291)	98,245	98,391
Other financial expenses paid		-	17	1
Net cash flow related to financing activities		**(72,175)**	**(105,115)**	**(126,721)**
Impact of exchange rate fluctuations		-	-	-
Change in cash flow		**1,127**	**(31,694)**	**20,215**
Opening cash and cash equivalents		32,552	64,247	44,032
Closing cash and cash equivalents	5.9.7	33,680	32,552	64,247

(1) At 31 December 2018, interest on bond redeemable in shares (ORA) were reclassified from the line "Loan repayments" to the line "Issue of loans".

5 Notes to consolidated financial statements

5.1 Entity presenting the financial statements

TERÉGA SAS is a company domiciled in France, with its registered office at 40 avenue de l'Europe, Pau. The consolidated financial statements of the Company for the financial years ended on 31 December 2018 and 31 December 2017 include the Company and its subsidiaries (see note 5.7), with the whole being referred to as "the Group", and each individual company as "the entities of the Group".

The TERÉGA Group, located in Pau, in the French department of Pyrénées-Atlantiques, has the mission of offering and developing, on the European market, a natural gas transmission and storage service.

5.2 History of the establishment of the TERÉGA Group and background to the preparation of the consolidated financial statements of TERÉGA SAS

On 30 July 2013, all of the securities of TERÉGA SA (formerly TIGF SA), held until then by TGEHF (Total Gaz Electricité Holding France), were sold to TERÉGA SAS (formerly TIGF INVESTISSEMENTS), itself held by TERÉGA HOLDING (formerly TIGF HOLDING).

TERÉGA SAS's consolidated financial statements as at 31 December 2018 and 31 December 2017 were specifically prepared to be incorporated into a Prospectus for the issue of transferable securities to be filed with the French Financial Markets Regulator (AMF) by the end of 2019. They were approved by the Board of Directors on 17 October 2019.

5.3 Accounting principles

5.3.1 Declaration of compliance

The accounting principles chosen for the preparation of the consolidated financial statements comply with the IFRS and interpretations as published by the IASB and approved by the European Union at 31 December 2018 and presented in detail on the website of the European Commission (https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en).

5.3.2 First-time Adoption of International Financial Reporting Standards (IFRS 1)

TERÉGA SAS prepared its financial statements for the financial years ended 31 December 2017 and 31 December 2018 in accordance with the provisions of IFRS 1 "First-time Adoption of International Financial Reporting Standards". The date of first-time adoption of IFRS corresponds to the date of constitution of the TERÉGA HOLDING group as at 30 July 2013.

Thus, pursuant to IFRS 1 provisions relating to subsidiaries that adopt IFRS after their parent company, TERÉGA SAS has chosen to prepare its first IFRS financial statements on the basis of the book values of its assets and liabilities as reflected in its contribution to the consolidated financial statements of TERÉGA HOLDING, after eliminating adjustments related to the consolidation procedures of the TERÉGA HOLDING group and to business combinations.

5.3.3 Standards, interpretations and amendments applied

The IFRS as well as their interpretations and amendments are presented in the table below. They were applied by the Group in its consolidated financial statements at 31 December 2017 and 31 December 2018:

IFRS ADOPTED BY THE EU *(and related amendments)*	IMPACT	EXPLANATORY NOTES
IAS 1 - Presentation of Financial Statements	**Yes**	**Notes 1 - 2**
IAS 2 - Inventories	**Yes**	**Note 5.5.5**
IAS 7 - Statement of Cash Flows	**Yes**	**Note 4**
IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors	**Yes**	**Note 5.5**
IAS 10 - Events after the Reporting Period	**Yes**	**Note 5.13**
IAS 11 - Construction Contracts	NA	
IAS 12 - Income taxes	**Yes**	**Note 5.5.11**
IAS 16 - Property, Plant and Equipment	**Yes**	**Note 5.5.4**
IAS 17 - Leases	NS	Note 5.5.9
IAS 18 - Revenue	**Yes**	**Note 5.5.8**
IAS 19 - Employee Benefits	**Yes**	**Note 5.5.6**
IAS 20 - Government Grants	**Yes**	**Note 5.5.4.4**
IAS 21 - The Effects of Changes in Foreign Exchange Rates	NS	**Note 5.9.1**
IAS 23 - Borrowing Costs	**Yes**	**Note 5.5.2.7**
IAS 24 - Related Party Disclosures	**Yes**	**Note 5.11**
IAS 26 – Accounting and Reporting by Retirement Benefit Plans	NA	
IAS 27 - Separate Financial Statements	NA	
IAS 28 - Investments in Associates and Joint Ventures	NA	
IAS 29 - Financial Reporting in Hyperinflationary Economies	NA	
IAS 32 - Financial instruments	**Yes**	**Note 5.5.2.3**
IAS 33 - Earnings per share	NA	Non-listed company
IAS 34 - Interim Financial Reporting	NA	
IAS 36 - Impairment of Assets	**Yes**	**Note 5.5.2.8**
IAS 37 - Provisions, Contingent Liabilities and Contingent Assets	**Yes**	**Note 5.5.7**
IAS 38 - Intangible assets	**Yes**	**Note 5.5.3**
IAS 39 - Financial Instruments: Recognition & Measurement	**Yes**	**Note 5.5.2.3**
IAS 40 - Investment Property	NA	
IAS 41 - Agriculture	NA	
IFRS 1 - First-time adoption of IFRS	**Yes**	**Note 5.3.2**
IFRS 2 - Share-based Payment	NA	Non-listed company
IFRS 3 - Business Combinations	**Yes**	**Note 5.5.2.1**
IFRS 4 - Insurance Contracts	NS	
IFRS 5 - Non-current Assets Held for Sale & Discontinued Operations	NA	
IFRS 6 - Exploration for & Evaluation of Mineral Resources	NA	
IFRS 7 -Financial instruments: Disclosures	**Yes**	**Note 5.5.2.3**
IFRS 8 - Operating Segments	NA	Non-listed company
IFRS 9 - Financial Instruments	NS	**Note 5.5.2.3**
IFRS 10 - Consolidated Financial Statements	**Yes**	**Notes 1 - 2**
IFRS 11 - Joint Arrangements	NA	
IFRS 12 - Disclosure of Interests in Other Entities	NA	
IFRS 13 - Fair Value Measurement	**Yes**	**Note 5.9.10.5**
IFRS 15 - Revenues from Ordinary Operations from Contracts with Cust	**NS**	**Note 5.5.8**
IFRS 16 - Leases	NS	Note 5.5.9

5.3.3.1 New mandatory standards, amendments and interpretations

Mandatory Standards, Amendments and Interpretations as of 1 January 2017
New standards or amendments that could have a material impact on the financial statements as at 31 December 2017 have not been identified.

Mandatory Standards, Amendments and Interpretations as of 1 January 2018
IFRS 9 and IFRS 15, which have been in force since 1 January 2018, have no significant impact on the Group's consolidated financial statements, as detailed in notes 5.5.2.3 & 5.5.8.

5.3.3.2 New standards, amendments and interpretations published by the IASB, adopted by the European Union but not applied in advance

The Group did not apply the following standards in advance (applicable as at 1 January 2019) but impact assessments were conducted:

IFRS 16 - Leases

The current revenue recognition practice for leases is substantially in line with IFRS 16. The application of IFRS 16 will therefore have no significant consequences in the Group's consolidated financial statements as at 31 December 2019.

IFRIC 23 – "Uncertainty over Income Tax Treatments"

IFRIC 23 clarifies the application of IAS 12 "Income Taxes" relating to the recognition and valuation, where there is uncertainty, of the treatment of income tax. The application of IFRIC 23 has no significant consequences in the Group's consolidated financial statements as at 31 December 2019.

5.3.3.3 New standards, amendments and interpretations published by the IASB but not yet adopted by the European Union

The standards, amendments and interpretations published by the IASB but not yet adopted by the European Union will only enter into force in a mandatory manner from this adoption and are therefore not applied by the Group.

5.3.4 Estimates and judgements

The preparation of the consolidated financial statements requires the management to exercise judgement in making estimates and assumptions likely to affect the application of accounting methods. The actual values may be different from the estimated values.

The estimates and the underlying assumptions are constantly reviewed. The impact of the changes of accounting estimates is recorded during the period of the change and all the subsequent periods affected.

The assumptions and estimates mainly concern:

- the measurement of the fair value of the assets acquired and liabilities recovered in the context of business combinations (see note 5.9.10.5);

- The recognition of the current tax expense;

- the period of use of tangible and intangible assets used for the calculation of depreciation: these estimates are presented in notes 5.5.3 and 5.5.4 of the accounting methods and valuation rules;

- The valuation of the recoverable value of the goodwill (see note 5.5.3.4);

- The valuation of the obligations linked to defined benefit plans (see note 5.5.6);

- The measurement of the deferred tax assets (see note 5.9.6.4);

- The estimation of disputes concerning tax controls (see note 5.6).

5.4 Consolidation principles

The acquired subsidiaries are consolidated in the Group's financial statements as from the date of their acquisition of control.

The consolidated financial statements presented in this document cover the periods from 1 January to 31 December 2017 and from 1 January to 31 December 2018. All of the Group's companies have a closing date of 31 December.

5.4.1 Subsidiaries

A subsidiary company is an entity controlled by the Group. The Group controls an entity if, and only if, all of the conditions below are met:

- It holds power over the entity;

- It is exposed or has the right to variable returns due to its involvement with the entity;

- It has the ability to exercise power over the company so as to influence the amount of the returns it obtains.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control is obtained until the date on which control ceases.

5.4.2 Investments controlled exclusively: full consolidation

Full consolidation consists of:

- Integrating the accounts of consolidated companies after any restatements into the accounts of the consolidating company

- Distributing equity and income between the interests of the consolidating company and the interests of other non-controlling shareholders

- Eliminating reciprocal accounts and transactions in account between the overall integrated company and its consolidated subsidiaries.

5.4.3 Transactions eliminated from the consolidated financial statements

The balance sheet balances and transactions and the income and expenses resulting from intra-group transactions are eliminated during the preparation of the consolidated financial statements.

5.5 Accounting principles and valuation rules

5.5.1 Accounting methods and principles used on the establishment of the group – basis for presentation

5.5.1.1 Business combination and allocation of goodwill

In accordance with the provisions of IFRS 1 relating to subsidiaries adopting IFRS after their parent company, TERÉGA SAS chose to assess business combinations based on the values adopted by its parent company: TERÉGA HOLDING.

Thus, the allocation of goodwill as at 30 July 2013, in accordance with the principles set out in note 5.5.3.4 is broken down as follows (in €M):

Acquisition cost as at 30 July 2013	1,596
Shareholder equity acquired at 30 July 2013	644
Initial consolidation difference	**952**

The allocation of the first consolidation difference is done as follows:

	Gross	Deferred tax	Net
Assets re-measured at fair value	835	(288)	**548**
- Tangible assets	*797*	*(274)*	***522***
- Intangible assets	*39*	*(13)*	***25***
Derecognition of investment subsidies	38	(13)	**25**
Liability re-measured at fair value - Bond loan of €500 million	(63)	22	**(41)**
Allocation of the acquisition price	810	(279)	**531**
Goodwill			**421**

In application of the principles laid down by IFRS 3, as it concerned a business combination, the valuation at fair value of certain tangible and intangible assets acquired respectively led to a re-measurement of €797 million and €39 million (see paragraphs relating to the tangible assets, intangible assets and goodwill).

The bond loan of €500 million (whose maturity and issuer are detailed in note 5.9.10.1) was revalued at its fair value for an impact of -€63 million.

Residual goodwill of €421 million was then recorded for the difference between the cost of acquiring TERÉGA SA and the net fair value of the assets and liabilities restated as part of the acquisition.

5.5.1.2 Recognition of the current tax expense

TERÉGA SAS belongs to the tax group of which TERÉGA HOLDING is the consolidation parent company. The tax consolidation agreement between TERÉGA HOLDING, TERÉGA SAS and TERÉGA SA provides that the tax results

are definitively acquired by the parent company. Thus, the tax expense applied in the accounts of TERÉGA SAS corresponds to the tax results of TERÉGA SA and TERÉGA SAS as if they were taxed separately.
Each group member company has determined its own income without applying the net financial expense cap measure provided for in Article 212 bis of the French General Tax Code. These financial expenses are borne by TERÉGA HOLDING in its capacity as taxpayer.

5.5.2 Accounting policies and valuation rules

The accounting methods described below were applied by all the entities of the Group.

5.5.2.1 Business combinations

Business combinations are accounted for in accordance with the principles set out by IFRS 3 by applying the purchase method on the purchase date, i.e. the date on which control is transferred to the Group.

The Group measures goodwill on the acquisition date as:

- the fair value of the consideration transferred; plus
- the amount entered for any profit-sharing that does not grant control in the company acquired; plus
- if the business combination is carried out in stages, the fair value of any shares previously held in the company acquired; less
- the fair value of the identifiable assets acquired and liabilities assumed.

If the difference is negative, the gain arising from the acquisition made under beneficial conditions is immediately recorded on the income statement.

The consideration transferred excludes the amounts relating to the payment of pre-existing relations. These amounts are generally entered on the income statement.

The costs related to the acquisition, other than those related to the issue of debt or equity securities, that the Group covers due to a business combination, are recorded as expenses when they are incurred.
Goodwill is then measured at the cost, less the accumulation of impairment losses.

5.5.2.2 Shareholder equity

The additional costs directly attributable to the issue of new ordinary shares are recorded as a deduction from the shareholder equity. In addition, the convertible bonds issued by the Group are considered as shareholder equity instruments according to IAS 39.
Changes in fair value of the hedging instruments are recorded net of tax as "other elements of the comprehensive income" for the effective portion and on the income statement for the period for their ineffective portion. When the hedging instruments are implemented, the gains or losses accumulated in shareholder equity are recategorised on the income statement in the same section as the element covered.
The ORAs are recognised in equity to the extent that the redemption is at the discretion of the issuer and that the issuer may decide to repay shares at any time.

5.5.2.3 Financial instruments

On 24 July 2014, the IASB published IFRS 9 “Financial Instruments”, applicable to financial years beginning on or after 1 January 2018.
This standard defines a classification and valuation of financial assets that reflect the business model in which they are managed as well as their contractual cash flows; an impairment methodology based on “expected losses” and a change in the principles of hedge accounting.

As the current practice of accounting financial instruments within the TERÉGA Group complies with IFRS 9, the application of this standard therefore does not result in a significant change in the Group's consolidated financial statements.

5.5.2.4 Non-derivative financial assets

The Group initially records the loans, receivables and deposits on the date on which they are generated. All the other financial assets are recorded on the transaction date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights of the cash flow generated by the asset expire, or when it transfers the right to receive the contractual cash flow of a transaction in which practically all risks and benefits inherent to the ownership of the financial asset are transferred. Any interest created or preserved by the Group in transferred financial assets is entered separately as an asset or liability.

The financial assets and liabilities are offset and recorded for their net balance in the statement of financial status if, and only if, the Group legally has the right to offset the amounts and has the intention to either pay them for a net sum or realise the assets and pay off the liabilities simultaneously.

5.5.2.5 Loans and receivables

Loans and receivables are financial assets with fixed or calculable payments which are not listed on an active market. Such assets are recorded initially at the fair value, plus the directly attributable transaction costs. After the initial recording, the loans and receivables are measured at the depreciated cost according to the effective interest rate method, less any impairment losses. Loans and receivables include trade receivables and other debtors.

5.5.2.6 Cash and cash equivalents

Cash and cash equivalents are immediately available assets or short-term, highly liquid investments that are easily convertible into a known amount of cash and are subject to a negligible risk of value change.

5.5.2.7 Non-derivative financial liabilities

The Group records the debts issued on the date on which they are generated. All the other financial assets are initially recorded on the transaction date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when the contractual rights are extinguished, cancelled or expire.

The financial liabilities are recorded initially at the fair value, adjusted to include any directly attributable transaction costs. After the initial recording, these financial liabilities are measured at the depreciated cost according to the effective interest rate method.

5.5.2.8 Impairment of non-derivative financial assets

A financial asset that is not recorded at its fair value is examined on each closing date in order to determine if there is an objective indication of impairment losses. A financial asset is depreciated if there is an objective indication that one or more events took place after the initial recording of the asset, and that these events have an impact on the future estimated cash flow of the assets, which can be reliably estimated.

5.5.3 Intangible assets

5.5.3.1 Other intangible assets (excluding goodwill)

The other intangible assets that have been acquired by the Group and that have finite useful lives are recorded at cost less the accumulated depreciation and any accumulated impairment losses.

They include, in particular, the customer contracts identified during business combinations and software.

5.5.3.2 Subsequent spending

The subsequent spending relating to intangible assets is activated only if it increases the future economic advantages associated with the specific corresponding asset. Other spending, including spending pertaining to goodwill or trademarks generated internally, is recorded as an expense at the time it is incurred.

5.5.3.3 Depreciation

The amortisation of intangible assets is recorded as an expense according to the straight-line method over the estimated useful life for each component, starting from the commissioning thereof.

The estimated useful lives for the current period are the following:

- Patents and trademarks 5 years
- Software 5 years
- Development costs 5 years
- Customer contracts 30 years

The amortisation methods, the useful lives and the residual values are reviewed on each closing date and adjusted if necessary.

5.5.3.4 Depreciation of non-financial assets

The book values of the non-financial assets of the Group, other than the inventory and the deferred tax assets, are examined on each closing date in order to assess whether there is an indication that an asset has suffered impairment. If there is such an indication, the recoverable value of the asset is estimated. The goodwill and intangible assets with undetermined useful life are tested every year. An impairment loss is recorded if the book value of an asset or the cash-generating unit (CGU) to which it belongs is greater than its estimated recoverable value.

The recoverable value of an asset or a CGU is the highest value between useful value and the fair value, less the sales costs. In order to assess the useful value, the estimated future cash flows are updated to the rate, before tax, that reflects the current assessment of the time value of money market and the risks specific to the asset or the CGU. Impairment losses are recorded on the income statement. An impairment loss recorded for the CGUs is first of all allocated to the reduction of the book value of any goodwill allocated to the CGU (of a CGU group), then to the reduction of the book values of the other CGU assets (of the CGU group) in proportion to the book value of each CGU asset (of the CGU group).

In the context of impairment tests, the TIGF Group is considered as a single Cash-Generating Unit, since both the Transmission and Storage activities benefit from synergies and pooling implemented from a decision-making, managerial, operational, commercial and financial perspective - and are interdependent in terms of cash flow. They also meet the same economic and financial constraints since their level of investment and acceptance is regulated by the CRE (Energy Regulatory Commission).

An impairment loss recorded for goodwill cannot be reversed. For the other assets, the book value, increased due to the reversal of an impairment loss must not be greater than the book value which would have been determined, net of depreciations, if no impairment loss had been recorded.

5.5.4 Tangible assets

5.5.4.1 Recording and measurement

A tangible asset is measured at cost as defined below, less the accumulation of the depreciation and the accumulation of impairment losses.

The cost includes the spending directly attributable to the acquisition of the asset. When components of tangible assets have different periods of use, they are recorded as distinct tangible assets (major components).

The profit or loss on the transfer of tangible assets (corresponding to the difference between the net income from the sale and the book value of the asset) is recorded on the income statement.

5.5.4.2 Subsequent costs

Subsequent costs are activated only when it is likely that there will be economic advantages for the Group associated to this element. The spending linked to maintenance and repairs is recorded as an expense when it is incurred.

5.5.4.3 Depreciation

Tangible assets are depreciated according to the straight-line method on the income statement, over the estimated useful life for each component. Land is not depreciated.
Tangible assets are depreciated from the time they are installed and ready for use, or for goods produced internally, from the time the asset is completed and ready for use.

The useful lives for tangible assets are as follows:

- Pipework and connections 50 years
- Compression stations 30 years
- Constructions 25 years
- Fittings 10 years
- Equipment and tools 10 years
- Transmission equipment 10 years
- Office and IT equipment 5-10 years
- Furniture 10 years
- Cushion gas 75 years

The cushion gas corresponds to a permanent gas reserve that makes it possible to maintain the level of pressure required for storage and to maintain the delivery speeds requested by customers.
Regarding its depreciation: see note 5.8 on “information on the comparability of accounts”.

5.5.4.4 Investment subsidies

The European investment subsidies received by the companies of the Group are recorded as a deduction from the assets and are entered on the income statement over the functional lifespan of the assets they contributed to financing.

5.5.5 Inventory

Inventory is measured at the lowest value between the cost and the net realisation value. The cost of inventory is calculated using the average weighted cost method. The cost of entry into inventory of items includes actual accessory purchase costs, excluding transport.

The provision for materials and supplies inventory depreciation is created on the basis of a detailed analysis of rotations by article.

5.5.6 Employee benefits

The Group grants certain employees post-employment benefits (retirement schemes) as well as other long-term benefits (long-service awards).

5.5.6.1 Defined benefit plan - Pensions

The net obligation of the Group for defined benefit plans is measured separately for each plan by estimating the sum of the future benefits acquired by the staff in exchange for services provided during the current and previous periods; this sum is discounted to determine its current value. The costs of past services not recorded and the fair value of the assets of the plan are then deducted. The discount rate is equal to the interest rate, on the date of closure, of the first category obligations with a due date close to that of the Group's commitments and which are denominated in the currency for payment of the services.
The calculations are made every year by a qualified actuary, using the projected unit credit method. For defined benefit plans, the Group records all the actuarial differences in shareholder equity.

5.5.6.2 Other long-term staff benefits

The Group's net obligation for long-term benefits, other than pension schemes, is equal to the value of the future benefits acquired by the staff in exchange for services rendered during the current period and previous periods. These benefits are primarily composed of long-service awards.

5.5.6.3 Short-term staff benefits

The obligations for short-term benefits are measured on a non-discounted basis and recorded when the corresponding service is provided. A liability is recorded for the amount that the Group expects to pay for profit-sharing and bonus plans paid in cash in the short term if the Group has a current legal or constructive obligation to make these payments in exchange for past services rendered by the staff member and that a reliable estimation may be made of the obligation.

5.5.7 Provisions

A provision is recorded when the Group has a current legal or constructive obligation as a result of a past event, the obligation may be reliably estimated and it is likely that an outflow of resources representative of economic benefits will be required to settle the obligation. For provisions whose time frame is greater than 12 months, the amount of the provision is determined by discounting the future expected cash flows at the rate, before tax, reflecting the current assessment by the market of the time value of money and the specific risks in this liability. The effect of the accretion is recorded in the financial charges.

5.5.8 Revenues

The revenue primarily corresponds to receipts from transmission and storage capacities, and also from receipts from connection and transit contracts.

The Group records sales when:

- A contractual relation is proven;
- The provision of services is completed;
- The price is fixed or determinable.

The recognition of income from contracts with customers is based on the following five steps:

- Identification of the contract with the client;
- Identification of the obligation to execute, represented by the contractual promise to transfer goods and/or services to a client;
- Determination of the transaction price;
- Allocation of the transaction price to the execution obligations identified on the basis of the separate selling price for each property or service;
- The registration of products when the corresponding performance obligation has been fulfilled, or at the time of the transfer to the customer of the promised property or service. The transfer will be considered to be carried out when the customer obtains control of the goods or services, which may take place in time or at a specific time.

As regards the activities carried out by the TERÉGA Group, revenues are generally recognised when the service is provided. Most of the basic revenues concern regulated activities, whose revenues are governed by the regulatory framework established by the CRE (Energy Regulatory Commission).
Under the neutrality principle defined by applicable law, transactions in the balancing market do not generate costs or revenues, since they are only batches in transit and are redistributed annually to the gas community.
The difference (positive or negative) between the invoice and the forecast is covered in the EIAA (Expenses and Income Adjustment Account).

The current revenue recognition practice is essentially in line with the requirements of IFRS 15. The application of IFRS 15 therefore has no significant impact on how revenues are recognised in the Group's consolidated financial statements.

5.5.9 Lease agreements

Leases are classified as operating leases and are not recorded in the Group's statement of financial status.

Payments under operating leases are recorded on the income statement on a straight-line basis over the term of the lease agreement. The benefits received from the lessor form an integral part of the net total of rental expenses and are recorded, less the expenses, over the term of the lease agreement.

On 13 January 2016, the IASB published IFRS 16 "Leases", which will replace IAS 17 "Leases" and will apply to financial years beginning on or after 1 January 2019. IFRS 16 replaces the single lease expense line with depreciation of leased assets and interest expense on lease liabilities. This standard aligns the treatment of lease expenses for all leases.

The current practice of booking lease agreements is in accordance with IFRS 16. The application of IFRS 16 will therefore not have a significant impact on the Group’s consolidated financial statements as at 31 December 2019.

5.5.10 Income and financial charges

The cost of the net financial debt is mainly composed of the interest charges in connection with the financial debts calculated according to the effective interest rate.

The other financial products and expenses include the income from financial assets and the foreign exchange earnings.

5.5.11 Taxes

Tax on the profit includes tax liabilities and deferred tax. Payable and deferred taxes are recorded on the income statement unless they relate to a business combination or to items recorded directly as equity or other elements of comprehensive income.

Payable tax is the estimated tax owed (or to be received) on the taxable profit (or loss) for a period, determined using tax rates that have been adopted or practically adopted on the balance sheet date and any adjustment of the amount of the tax payable in respect of previous periods. For the 2017 and 2018 financial years, the tax rate applied by the group is 34.43%.

Deferred tax is recorded on the basis of the time differences between the book value of the assets and liabilities and their tax bases. The following elements do not give rise to any recognition of deferred tax:

- the initial recognition of an asset or a liability in a transaction which is not a business combination and which affects neither the accounting profit nor the taxable profit;

- the time differences relating to investments in subsidiaries and joint ventures insofar as it is unlikely that they will be reversed in a foreseeable future;

- the taxable time differences generated by the initial recognition of goodwill.

The deferred tax assets and liabilities are measured at the tax rates which are expected to be applied over the period during which the asset will be realised and the liability settled, on the basis of the tax rates which have been adopted or practically adopted on the closing date.

To determine the amount of the tax due and deferred, the Group takes into account the impact of the uncertain tax positions and the additional taxes and interest which may be due.

The deferred tax assets and liabilities are offset if there is a legally enforceable right to offset the current tax assets and liabilities and if they concern taxes on the same income payable to the same tax authority, either on the same taxable entity, or on different taxable entities, but which are intended to pay the current tax assets and liabilities on the basis of the net amount or to realise the tax assets and settle the liabilities simultaneously.

A deferred tax asset is recognised for temporary deductible differences and tax losses and unused tax credits only insofar as it is likely that the Group will have sufficient future taxable profits against which the asset can be used. The deferred tax assets are examined at each closing date and are reduced insofar as it is unlikely that sufficient taxable profit will be available.

The Group assesses its uncertainty over tax treatments in accordance with the principles of IFRIC 23 (see note 5.3.3.2).
This standard clarifies the application of the provisions of IAS 12 “Income Taxes” concerning accounting and valuation, where there is uncertainty about the treatment of income tax.

5.5.12 Foreign currency

Foreign currency transactions are converted into the functional currency of the Group by applying the exchange rate in force on the transaction date. Monetary assets and liabilities recorded in foreign currencies on the balance sheet date are converted into the functional currency by using the exchange rate on that date.
Foreign exchange rate differences arising from these conversions are recorded on the income statement.

5.6 Typical facts of the periods presented

Brand evolution

On 29 March 2018, TIGF became TERÉGA (TERÉGA SA, TERÉGA SAS and TERÉGA Holding SAS).

Tax audits

Audit of Accounting for Tax Years 2013/2014/2015

TERÉGA SA was audited for accounting in 2016 for financial years 2013 to 2015
In its tax assessment notice, the auditing unit notified TERÉGA SA that it questioned the depreciable nature of the cushion gas used for the Izaute and Lussagnet underground gas storage sites and therefore intends to reject the deductibility of the annual depreciation charge. TERÉGA SA has formally contested the tax authorities' position.

On 13 October 2017, TERÉGA SA brought the dispute related to the depreciable nature of the cushion gas before the French Direct Tax and Turnover Tax Commission (CNIDTCA).
As indicated in note 5.13 on post-closing events, on 19 March 2019, TERÉGA SA received a letter from the National and International Audits Department, DVNI, announcing the abandonment of the recovery on the non-deductibility of the cushion gas depreciation.

Accounting audit for financial years 2016 and 2017

On 19 December 2018, TERÉGA SA received an inspection notice from DVNI covering financial years 2016 and 2017.
The inspection is in progress.

Storage regulation

French law 2017-1839 of 30 December 2017, bringing an end to the search for and exploitation of hydrocarbons and implementing various provisions relating to energy and the environment, was published in the Official Journal of the French Republic on 31 December 2017. Its Article 12 provides for regulation of the revenue of storage operators.

The decision of the Energy Regulation Commission (CRE) concerning a draft decision on the revenue of storage operators was published on 22 February 2018 and took effect during the 2018 financial year.

The regulated asset base (RAB) approved by the Energy Regulation Commission amounts to €1,156.1 million with a weighted average cost of capital (WACC) rate of 5.75% for an authorised revenue of €153.4 million in 2018.

5.7 Information relating to the scope

The scope of consolidation is as follows:

Companies	Consolidation method	31/12/2018		31/12/2017		01/01/2017	
		% control	% stake	% control	% stake	% control	% stake
TERÉGA SA	Full consolidation	100%	100%	100%	100%	100%	100%
TERÉGA NEWCO 1	Full consolidation	100%	100%	0%	0%	0%	0%
TERÉGA NEWCO 2	Full consolidation	100%	100%	0%	0%	0%	0%
TERÉGA SAS	Full consolidation	100%	100%	100%	100%	100%	100%

On 19 December 2018, TERÉGA Newco 1 and TERÉGA Newco 2 were incorporated, 100% owned by TERÉGA SAS. They entered the scope of consolidation for the year ended 31 December 2018.

5.8 Information on the comparability of accounts

5.8.1 Change in presentation

There is no change in the presentation of the financial statements between 31 December 2018 and 31 December 2017 nor the date of opening on 1 January 2017.

5.8.2 Change in accounting method

There is no change in accounting method at 31 December 2017 or the opening date at 1 January 2017. As at 31 December 2018, changes in accounting methods had no significant impact on the accounts (see notes 5.5.2.3 and 5.5.8, on IFRS 9 and IFRS 15 respectively).

5.8.3 Change in accounting estimate

- **Financial year ended 31 December 2017**

None.

- **Financial year ended 31 December 2018**

The deliberation of the Energy Regulatory Commission (CRE) of 22 March 2018 marks the start of storage facilities regulation and resulted in a draft decision on the revenue of storage operators. In this deliberation, the CRE takes into account “cushion gas” (gas injected into underground storage sites, essential for their operation) in the Regulated Asset Base (BAR) and applies a depreciation period of 75 years.

The Group therefore decided to amortise cushion gas in the IFRS consolidated financial statements over 75 years from 1 January 2018, the start of storage activity regulation; this leads to a negative impact of -€7,760 K on IFRS 2018 consolidated income.

5.9 Notes on the consolidated statement of financial position

5.9.1 Functional and accounting currency

The consolidated financial statements of the Group are presented in euros, the functional currency of the Company. Unless otherwise specified, all the financial information presented in euros is rounded up to the nearest thousand euros.

5.9.2 Intangible assets and goodwill

The change in intangible assets is analysed as follows:

Gross values *(In thousands of euros)*	01/01/2017	Acquisitions	Transfers/ Scrapping	31/12/2017	Acquisitions	Transfers/ Scrapping	31/12/2018
Goodwill	420,756	-	-	420,756	-	-	420,756
Development costs	-	-	-	-	-	-	536
Licences, patents & similar rights	22	-	(22)	-	-	-	-
Software	72,268	-	(1,266)	81,515	-	(5,440)	98,365
Customers	38,711	-	-	38,711	-	-	38,711
Current intangible assets	4,409	12,353	-	6,249	23,186	-	6,609
Gross values	**536,165**	**12,353**	**(1,287)**	**547,231**	**23,186**	**(5,440)**	**564,977**

Depreciation and impairment *(In thousands of euros)*	01/01/2017	Allowances	Transfers/ Scrapping	31/12/2017	Allowances	Transfers/ Scrapping	31/12/2018
Goodwill impairment	-	-	-	-	-	-	-
Depr./Imp. devel. costs	-	-	-	-	(6)	-	(6)
Amortisation/Impairment of licences, patents & similar rights	(22)	-	22	-	-	-	-
Amortisation/Impairment of software	(34,507)	(12,363)	1,266	(45,605)	(13,632)	5,440	(53,797)
Amortisation/Impairment of software	(4,416)	(1,290)	-	(5,706)	(1,290)	-	(6,996)
Depreciation and impairment	**(38,944)**	**(13,653)**	**1,287**	**(51,310)**	**(14,928)**	**5,440**	**(60,799)**
Net book value	**497,221**	**(1,300)**	**-**	**495,921**	**8,257**	**-**	**504,178**

Goodwill

As at 31 December 2017 and 2018, the impairment tests carried out did not result in the identification of impairment losses.

The main work consisted of:

- Determining the asset base to be tested from the consolidated financial statements as at 31 December N;
- Analysing the consistency between the cash flows used for the impairment tests and the tested assets;
- Analysing the differences between the trajectories of Strategic Plan N and N-1 used for asset impairment tests and the consistency of the assumptions used in the Strategic Plan;
- Estimating the weighted average cost of capital ("**WACC**") applicable to cash flows from transmission and storage activities;
- Estimating the enterprise value of the UGT;
- Performing value sensitivity analyses on key operational and financial assumptions.

The impairment test is based on the parameters published by the CRE in its public consultations referring to ATS1 and ATR6.

The sensitivity of the impairment test was tested on a change in WACC of 3 points as well as on a change in the indexation of the value of the BAR (Regulated Asset Base) from 1 to 1.4. The analysis did not identify any significant risk in the valuation of the company's value.

Software

The main acquisitions of intangible assets for financial year 2018 came from the acquisition of software, mainly the commissioning of the Trading Region France (TRF) requiring an investment of €1,826 K, as well as the revision of the client interface for €2,405 K and the new digital tools for operational activities for €1,739 K.

Scrapping concerns software that is no longer used by the company. The net book value of this scrapping was zero.

5.9.3 Tangible assets

The change in tangible assets during the year is as follows:

Gross values *(In thousands of euros)*	01/01/2017	Acquisitions	Transfers/ Scrapping	31/12/2017	Acquisitions	Transfers/ Scrapping	31/12/2018
Land	9,631	590	(9)	10,212	214	(1)	10,425
Land development	10,135	370	-	10,506	220	-	10,726
Buildings	85,360	3,508	(147)	88,721	4,547	(4,662)	88,607
Tech installations, material & tools	2,507,520	107,532	(9,792)	2,605,261	212,331	(925)	2,816,668
Other tangible assets	924	394	(27)	1,291	260	(15)	1,536
Office equipment	783	78	(14)	847	277	(105)	1,019
Transmission equipment	3	-	-	3	1	-	5
IT equipment	3,503	1,601	(318)	4,786	1,471	(709)	5,548
Current tangible assets	84,011	50,687	-	134,698	(73,936)	-	60,762
Advances and deposits on tang. assets	102	-	(3)	99	-	(10)	89
Gross values	**2,701,972**	**164,762**	**(10,309)**	**2,856,424**	**145,387**	**(6,426)**	**2,995,385**

Depreciation and impairment *(In thousands of euros)*	01/01/2017	Allowances	Transfers/ Scrapping	31/12/2017	Allowances	Transfers/ Scrapping	31/12/2018
Depr./Imp. on Land development	(3,311)	(957)		(4,267)	(968)		(5,235)
Depreciation/Impairment on buildings	(11,706)	(4,500)	147	(16,060)	(4,565)	1,081	(19,544)
Depreciation/Impairment on technical installations, material & tools	(375,746)	(111,717)	9,792	(477,671)	(104,405)	925	(581,152)
Depreciation/Impairment on other tangible assets	(684)	(104)	27	(761)	(75)	15	(821)
Depr./Imp. on Office equipment	(221)	(95)	14	(301)	(96)	105	(292)
Depr./Imp. on Transmission equipment	(0)	(0)	-	(1)	(0)	-	(1)
Depr./Imp. on IT equipment	(1,528)	(877)	318	(2,087)	(970)	709	(2,349)
Depreciation and impairment	**(393,196)**	**(118,249)**	**10,298**	**(501,148)**	**(111,080)**	**2,833**	**(609,395)**
Net book value	**2,308,776**	**46,512**	**(12)**	**2,355,277**	**34,306**	**(3,593)**	**2,385,990**

The main acquisitions in 2018 concern development projects, including the Midi Gascogne Strengthening project for €149,259K as well as investments to modernise, secure and maintain infrastructure, whether for transmission or storage activities.

Note also the acquisition in 2018 of cushion gas for €12,996 K required for the correct operation of the storage (see note 5.8.3).

5.9.3.1 Tangible assets by activity

5.9.3.1.1 Transmission

In thousands of euros		Net values 31/12/2017	Changes Gross Values	Changes Depreciations	Net values 31/12/2018
Intangible assets		**362,346**	**10,081**	**(5,843)**	**349,521**
Goodwill		*294,529*	*0*	*0*	*294,529*
Current intangible assets		*4,509*	*(54,833)*	0	*16,293*
Tangible assets		**1,768,351**	**96,505**	**(66,601)**	**1,796,468**
Land		5,976	*105*	0	*6,254*
Buildings	*Own land*	*49,136*	*(111)*	(2,350)	*47,722*
	General facilities	*4,645*	*129*	(400)	*3,944*
Technical Installations, Equipment, Tools		*1,572,028*	*175,614*	(63,260)	*1,696,216*
Other tangible assets	*Transmission equipment*	*2*	*1*	0	*3*
	Office and IT equip	*2,403*	*453*	(276)	*2,707*
Current tangible assets		*124,338*	*(82,701)*	0	*42,021*
Advances and down payments		*87*	*(10)*	0	*77*
Total		**2,130,697**	**106,586**	**(72,443)**	**2,145,989**

5.9.3.1.2 Storage

In thousands of euros		Net values 31/12/2017	Changes Gross values	Changes Depreciation and amortisation	Net values 31/12/2018
Intangible assets		**133,574**	**7,665**	**(3,645)**	**154,657**
Goodwill		*126227*	*0*	*0*	*126227*
Current intangible assets		*1,740*	*78,019*	0	*13,142*
Tangible assets		**586,925**	**42,453**	**(41,643)**	**589,522**
Land		*4,236*	*108*	0	*4,171*
Buildings	*Own land*	*23,525*	*(4)*	(1,134)	*21,340*
	General facilities	*1,594*	*91*	(568)	*1,547*
Technical Installations, Equipment, Tools		*555,562*	*35,792*	(40,220)	*539,300*
Other tangible assets	*General facilities*	*530*	*0*	(60)	*715*
	Transmission equipment	*0*	*0*	0	*0*
	Office IT equipment + furniture	*842*	*481*	24	*1,220*
Current tangible assets		*10,360*	*8,765*	0	*18,741*
Advances and down payments		*12*	*0*	0	*12*
Long-term investments		**0**	**0**	**0**	**0**
Total		**720,499**	**50,118**	**(45,289)**	**744,179**

5.9.4 Inventory

Gross values *(In thousands of euros)*	31/12/2018			31/12/2017		
	Gross values	Impairment	Net values	Gross values	Impairment	Net values
Raw materials, supplies and other consumables	24,651	(2,061)	22,591	23,087	(1,563)	21,523
Gross values	**24,651**	**(2,061)**	**22,591**	**23,087**	**(1,563)**	**21,523**

The inventory is composed of gas stock, primarily for own use, and technical equipment spare parts stock.

5.9.5 Trade receivables and other debtors

In thousands of euros	31/12/2018	31/12/2017
Trade receivables	25,463	3,299
Unbilled revenues	43,641	44,727
Customer deps and related accounts	(0)	(0)
Impairment	**(0)**	**(0)**
Trade receivables	**69,103**	**48,025**

Unbilled revenues in relation to receivable items mainly concern storage capacity and gas transmission income allocated to December 2018 and invoiced in January 2019.

5.9.6 Tax assets and deferred tax liabilities recorded

5.9.6.1 Changes in the financial year

The change in deferred taxes during the financial year is analysed as follows:

In thousands of euros	01/01/2017	31/12/2017	profit (loss) of the period	Other elements of comprehensive income	Shareholder equity	31/12/2018
Deferred tax assets	31,987	4,363	-	-	-	5
Deferred tax liabilities	(276,913)	(228,986)	(26,746)	(251)	18,454	(233,171)
Net deferred tax	**(244,926)**	**(224,623)**	**(26,746)**	**(251)**	**18,454**	**(233,166)**

Deferred taxes recognised in "Other comprehensive income" relate to actuarial gains and losses on pension obligations.

Deferred taxes on equity correspond to convertible bonds for the period from 1 January to 31 December 2018.

5.9.6.2 Deferred tax types for the financial year 2018

	31/12/2017	Profit (loss) of the period	Other elements of comprehensive income	Other reserves	31/12/2018
- Deferred tax on the difference between the book profit (loss) and the fiscal result	2,523	(496)	-	-	2,026
- Tax on other consolidation adjustments (cancellation of spreading of capital gains)	(0)	-	-	-	(0)
- Deferred tax on tax deficits	(0)	-	-	-	(0)
- Deferred tax on revaluation difference on tangible and intangible assets (allocation of the acquisition price)	(189,515)	4,922	-	-	(184,593)
- Deferred tax on expenses from the acquisition of securities	39,942	-	-	-	39,942
- Deferred tax on cancellation of regulated provisions	(92,155)	(11,247)	-	-	(103,403)
- Deferred tax on social commitments	5,502	1,456	(251)	-	6,707
- Tax deferred according to IFRIC 21 C3S standard	(178)	(6)		-	(184)
- Deferred tax on adjustment of financial debt (fair value and effective interest rate)	9,259	(21,374)		18,454	6,340
- Deferred tax on the revaluation of cash flow hedgess	0	-	-	-	0
Net deferred tax	**(224,623)**	**(26,746)**	**(251)**	**18,454**	**(233,165)**
- of which deferred tax assets	4,363	-		-	5
- of which deferred tax liabilities	(228,986)	(26,746)	(251)	18,454	(233,171)
Net deferred tax	**(224,623)**	**(26,746)**	**(251)**	**18,454**	**(233,165)**

5.9.6.3 Changes and types of deferred taxes for the previous financial year

The changes in the previous financial year are as follows:

In thousands of euros	01/01/2017	Profit(loss) of the period	Other elements of comprehensive income	Shareholder equity	Reclassifications	31/12/2017
Deferred tax assets	31,987	-	-	-	(27,624)	4,363
Deferred tax liabilities	(276,913)	2,746	(512)	18,454	27,238	(228,986)
Net deferred tax	**(244,926)**	**2,746**	**(512)**	**18,454**	**(385)**	**(224,623)**

Deferred taxes on equity correspond to interest on convertible bonds for the period from 1 January to 31 December 2017.

	01/01/2017	profit (loss) of the period	Assets at fair value through profit or loss	Other reserves	31/12/2017
- Deferred tax on the difference between the book profit (loss) and the fiscal result	2,751	(50)	-	-	2,523
- Deferred tax on revaluation difference for tangible and intangible assets (allocation of the acquisition price)	(220,284)	30,769	-	-	(189,515)
- Deferred tax on expenses from the acquisition of securities	36,273	3,669	-	-	39,942
- Deferred tax on cancellation of regulated provisions	(81,754)	(10,401)	-	-	(92,155)
- Deferred tax on social commitments	6,124	(110)	(512)	-	5,502
- Tax deferred according to IFRIC 21 C3S	23	6		-	(178)
- Deferred tax on adjustment of financial debt (fair value and effective interest rate)	11,941	(21,137)		18,454	9,259
Net deferred tax	**(244,926)**	**2,746**	**(512)**	**18,454**	**(224,623)**
- of which deferred tax assets	31,987	-		-	4,363
- of which deferred tax liabilities	(276,913)	2,746	(512)	18,454	(228,986)
Net deferred tax	**(244,926)**	**2,746**	**(512)**	**18,454**	**(224,623)**

5.9.6.4 Deferred tax assets not recognised

In accordance with the description in note 5.5.1.2, the tax deficits of the Group entities are not returned to the entities that generated them. Each legal company is considered an independent tax entity, with the head of tax consolidation being placed above TERÉGA HOLDING.
Thus, deferred tax assets, corresponding to the deficits used by tax consolidation and not recognised because not available in the consolidated financial statements amounted to €23,070 K as at 31 December 2018 and were €26,567 K as at 31 December 2017.

5.9.7 Cash and cash equivalents

In thousands of euros	31/12/2018	31/12/2017
Transferable securities - Cash equivalents	17,021	11,524
Cash and cash equivalents	16,658	21,028
Total net cash	**33,680**	**32,552**

5.9.8 Capital and reserves

At 31 December 2018, the share capital amounted to €489,474 K, consisting of 48,947,355 shares with a nominal value of €10.

At 31 December 2017, the share capital stood at €505,869 K composed of 59,514,044 shares with a par value of €8.50.

In 2013, the Group issued a bond redeemable in shares (ORA) with a nominal value of €790,000 K with a maturity of 30 years.

On 26 February 2015, €120,000 K of ORAs were repaid, divided by the percentage of ownership of the capital of the four shareholders, reducing its nominal value to €670,000 K.
The nominal value remains unchanged at 31 December 2017 and 31 December 2018.

5.9.9 Provisions

In thousands of euros	01/01/2017	Allowances	Reversals used	31/12/2017	Allowances	Reversals used	31/12/2018
Provisions for disputes - current	230	450	(20)	660	19	(170)	509
Provisions for restructuring - current	-	-	-	-	1,539	-	1,539
Other provisions for expenses - current	258	233	(38)	453	-	-	453
Current provisions	**488**	**683**	**(58)**	**1,113**	**1,558**	**(170)**	**2,501**
Total provisions	**488**	**683**	**(58)**	**1,113**	**1,558**	**(170)**	**2,501**

5.9.10 Financial debt

5.9.10.1 Changes in the 2018 financial year

The change in financial debts during the financial year is analysed as follows:

In thousands of euros	31/12/2017	Increase	Reduction	31/12/2018
Bond loans - non-current	1,429,818	-	(8,040)	1,421,778
Loans and debt with credit institutions - non-current	-	-	-	-
Loans and debt with credit institutions - current	15,000	65,000	(15,000)	65,000
Issue of equity securities and state advances - non-current	-	53,600	(53,600)	-
Other loans and similar debts - non-current	897	1,577	(987)	1,487
Other loans and similar debts – current	-	-	-	-
Accrued interest on loans – current	16,627	44,250	(44,045)	16,832
Total financial debt	**1,462,342**	**164,427**	**(121,673)**	**1,505,097**

In thousands of euros	Total 31/12/2018	N+1	N+2	N+3	N+4	>=N+5
Bond issues	1,421,778	-	-	521,778	-	900,000
Loans from credit institutions	65,000	65,000	-	-	-	-
Issue of equity securities and state advances - non-current	-	-	-	-	-	-
Other loans and similar debts	1,487	-	1,487	-	-	-
Accrued interest on borrowing	16,832	16,832	-	-	-	-
Interest incurred on loans - non-current	-	-	-	-	-	-
Total financial debt	**1,505,097**	**81,832**	**1,487**	**521,778**	**-**	**900,000**

As at 31 December 2018, the financial structure is composed of:

- Bonds for €1,421,778 K, including:
  - Public bond for €550 million, maturing in 2021, fixed rate: 4.339%
  - Public bond for €550 million, maturing in 2025, fixed rate: 2.200%
  - Private bond for €350 million, maturing 2035, fixed rate: 2.998%

- Revolving Credit Facility, RCF, with a drawdown capacity of €250 million. The RCF was the subject of a €65 million drawdown in December 2018, to be repaid in less than a year.

- Accrued interest on loans for €16,832 K

- Other non-current loans and similar debts for €1,487 K (mainly customer guarantees equivalent to deposits and guarantees received)

5.9.10.2 Changes in the 2017 financial year

In thousands of euros	01/01/2017	Increase	Reduction	31/12/2017
Bond loans - non-current	1,437,658		(7,840)	1,429,818
Loans and debt with credit institutions - non-current	-	15,000	-	-
Loans and debt with credit institutions - current	-	-	-	15,000
Issue of equity securities and state advances - non-current	-	53,600	(53,600)	-
Other loans and similar debts - non-current	713	1,418	(1,234)	897
Other loans and similar debts - current	44	-	(44)	-
Accrued interest on loans - current	16,438	44,477	(44,288)	16,627
Total financial debt	**1,454,853**	**114,495**	**(107,006)**	**1,462,342**

In thousands of euros	Total 31/12/2017	N+1	N+2	N+3	N+4	>=N+5
Bond issues	1,429,818	-	-	-	529,818	900,000
Loans from credit institutions	15,000	15,000	-	-	-	-
Issue of equity securities and state advances - non-current	-	-	-	-	-	-
Other loans and similar debts	897	-	-	-	-	897
Accrued interest on borrowing	16,627	16,627	-	-	-	-
Interest incurred on loans - non-current	-	-	-	-	-	-
Total financial debt	**1,462,342**	**31,627**	-	-	**529,818**	**900,897**

5.9.10.3 Net financial debt

Net financial debt *In thousands of euros*	01/01/2017	Change in the period	31/12/2017	Change in the period	31/12/2018
Gross cash	64,247	(31,694)	32,552	1,127	33,680
Debit balances and current bank loans	-	-	-	-	-
Net cash	**64,247**	**(31,694)**	**32,552**	**1,127**	**33,680**
Gross financial debt	1,454,853	7,489	1,462,342	42,755	1,505,097
Net financial debt	**1,390,607**	**39,183**	**1,429,790**	**41,627**	**1,471,417**

5.9.10.4 Management of risks related to financial assets and liabilities

The Group is exposed to the following risks in connection with the use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk.

The aim of the Group's risk policy and management is to identify and analyse the risks with which the Group is faced, to determine the limits within which the risks must lie and the controls to be implemented, to manage the risks and to ensure compliance with the limits defined. The risk policy and risk management systems are regularly reviewed in order to take into account the developments of the market conditions and the activities of the Group. Through its training and management rules and procedures, the Group aims to develop an environment of rigorous control, in which all members of staff have a good understanding of their roles and obligations.

Credit and counterparty risk

The credit and counterparty risk is managed at a Group level. It represents the risk of financial loss for the Group in the event that a customer or a counterparty fails to meet its contractual payment obligations.

The credit and counterparty risk concerns the cash and cash equivalents, the derivatives and the deposits with banks and financial institutions, as well as customer credit exposure, including unpaid receivables.

The maximum exposure to the credit and counterparty risk on the closing date is the following:

In thousands of euros	31/12/2018 Total	N+1	N+2	N+3	N+4	>=N+5
Trade receivables	69,104	69,104	-	-	-	-
Current payable tax receivables	2,961	2,961	-	-	-	-
Social receivables	85	85	-	-	-	-
Tax receivables	1,883	1,883	-	-	-	-
Other receivables	81	81	-	-	-	-
Total receivables	**74,114**	**74,114**	**-**	**-**	**-**	**-**

In view of the types of customers, which are large European gas producers and the relatively small number of shipping customers (60 at 31 December 2018), the Group considers that it is exposed only to a marginal credit risk.

Liquidity risk

The liquidity risk is the risk that the Group has difficulties in fulfilling its obligations with regard to financial liabilities which will be settled by a delivery of cash or other financial assets. The Group's approach towards managing the liquidity risk is to ensure, insofar as possible, that it always has sufficient liquidities in hand to honour its liabilities, when they become due, under normal or "stressed" conditions, without incurring unacceptable losses or undermining the Group's reputation.

The contractual cash flow is essentially composed of financial costs relating to the payment of interest and capital repayments.

Market risk

The market risk is the risk that variations in market prices, such as exchange rates, interest rates and prices of share capital instruments, affect the Group's income or the value of the financial instruments held. The purpose of the management of the market risk is to manage and control exposure to market risk within acceptable limits, all the while optimising the profitability / risk ratio.
The Group's financial performance is not substantially influenced by exchange fluctuations since a significant part of the activity is within the euro zone and costs and revenues are generally denominated in the same currency.

The Group was exposed to the variations of market interest rates through variable-rate bank loans. Following the refinancing carried out on 5 August 2015, the Group no longer has any variable-rate bank loans.

5.9.10.5 Information on the fair value of financial assets and liabilities

- Cash, loans and receivables

The Group considers that the book value of cash, trade receivables, other receivables, trade payables, other debts and various deposits and guarantees reflects the market value given the high level of liquidity of these items and their maturity at less than one year.

- Assets re-measured at fair value

Marketable securities are recognised at their acquisition price, which reflects their fair value (the amounts are non-significant).

- Derivatives and hedging instruments

The group does not hold any trading derivative or fair value derivative instrument.
The Group has not implemented cash flow hedging instruments.

- Financial liabilities at amortised cost

With regard to trade payables, the Group considers that the book value reflects the market value due to their high level of liquidity.
The market value of long-term and short-term financial debts is determined using the estimated future cash flows discounted using the rates observed by the Group at the end of the period for instruments with similar conditions and maturities.

5.9.11 Trade payables and other creditors

In thousands of euros	31/12/2018	31/12/2017
Trade payables	7,965	1,092
Invoices not yet received	58,977	35,189
Trade payables	**66,942**	**36,280**

The amount of the invoices not yet received at year end corresponds to the normal cycle of work accepted within the scope of the operations carried out by the Group.

The increase in invoices not received in 2018 is linked to the increase in investment activities for which the receipt of work resulted in an increase in invoices receivable.

5.9.12 Other current liabilities

In thousands of euros	31/12/2018	31/12/2017
Customers - Advances and deposits received	-	-
Employment-related debts - current	21,785	21,427
Tax debts (except corporate tax and company added-value contribution) - current	9,730	8,767
Other debts - current	2,376	2,351
Deferred income & other accrual accounts	63	74
Other current liabilities	**33,955**	**32,618**

5.9.13 Other current assets

In thousands of euros	31/12/2018	31/12/2017
Suppliers - Advances and advances paid	13,624	5
Debtor suppliers (discounts, rebates, reductions and other credit notes)	1,485	-
Receivables from employees & social security bodies	85	89
Tax receivables - excluding corporate tax - current	1,883	979
Other receivables - current	6	743
Prepaid expenses	75	55
Gross values	**17,159**	**1,871**

Advances and advances paid on suppliers amounted to €13,624 K as at 31/12/2018 vs. €5 K as at 31/12/2017. The increase in this item comes from the recognition of a down payment following the purchase of gas cushion for €13,624 K at the end of 2018.

5.10 Notes on the consolidated income statement

5.10.1 Income

In thousands of euros	2018	2017
Production of services sold	436,438	452,204
Sales of goods	20,344	14,940
Other rebilling with margin	89	451
Revenues	**456,872**	**467,594**

The production of services sold mainly corresponds to the receipts from transmission and storage capacities, to which the receipts from connection and transit contracts are added.

The sectoral distribution of revenues is as follows:

In thousands of euros	2018	%	2017	%
Transmission	303,353	66%	292,646	63%
Storage	153,519	34%	174,949	37%
Revenues	**456,872**		**467,594**	

Revenues are generated entirely in France.

5.10.2 Other income

The following are the most significant elements:

In thousands of euros	2018	2017
Production transferred to inventory	-	-
Operating subsidies	16	-
Other income	3,741	1,580
Transfers of operating expenses	249	213
Other activity income	**4,007**	**1,794**

Other income is mainly from rebilling for pipe diversions under work agreements.

5.10.3 Purchases and expenses

5.10.3.1 Purchases of materials, supplies and goods

In thousands of euros	2018	2017
Purchases of RM, supps. & other goods	(21,500)	(16,799)
Change RM invent., supps. & other goods	1,565	(1,213)
Purchase of studies	(100)	(18)
Other purchases	1	2
Non-inventory purchases of materials and supplies	(19,438)	(11,098)
Purchases of goods	(19,437)	(11,096)
Purchases consumed	**(39,473)**	**(29,126)**

5.10.3.2 Personnel expenses

In thousands of euros	2018	2017
Staff remuneration	(31,425)	(29,208)
Social sec. and provident expenses	(16,280)	(15,548)
Stocks Options and Free Shares expenses	-	-
Other personnel expenses (including incentive schemes)	(5,658)	(4,823)
Employee profit-sharing	(4,000)	(4,600)
Allocations/Provisions for pension obligations	(5,711)	(2,283)
Reversals/Provisions for pension obligations	879	445
Net reversal / (allocation) for pension obligations	*(4,832)*	*(1,838)*
Personnel expenses	**(62,195)**	**(56,016)**

The increase in payroll is mainly explained by an increase in the company's workforce (+ 25 full-time equivalents in 2018).

5.10.3.3 *External expenses*

In thousands of euros	2018	2017
General sub-contracting	(21,444)	(21,591)
Rentals and rental expenses	(1,813)	(1,862)
Maintenance and repairs	(22,463)	(24,318)
Insurance premiums	(648)	(899)
Miscellaneous	(1,633)	(1,674)
Remuneration of intermediaries & fees	(1,213)	(932)
Advertising	(2,499)	(1,448)
Transmission	(127)	(195)
Travel, assignments	(3,197)	(3,079)
Postage	(2,611)	(2,173)
Banking services	(171)	(150)
Other external expenses	(1,255)	(1,477)
External expenses	**(59,073)**	**(59,797)**

5.10.4 Financial income and financial expenses

In thousands of euros	2018	2017
Interest on bank borrowing	(10,942)	(10884)
Interest on bond issues	(25,914)	(26,111)
Net financial debt cost	**(36,856)**	**(36,994)**
Dividends	1,297	6
Financial asset income excl. cash equivalents	2	1
Foreign exchange losses	(29)	(38)
Foreign exchange gains	-	32
Other investment income	-	17
Other financial income and expenses	**1,270**	**18**
Financial result	**(35,586)**	**(36,976)**

The interest on borrowing is related to the external financing mentioned in the paragraph "financial debt".

5.10.5 Taxes

5.10.5.1 Taxes recorded in the income statement

In thousands of euros	2018	2017
Payable tax (corporate tax at normal rate / additional and exceptional contribution)	(38,325)	(48,306)
Deferred taxes	(26,746)	2,746
Income tax	**(65,071)**	**(45,561)**

The Finance Act 2018 increased the reduction in corporate tax rates compared with the Finance Act 2017, which had introduced this gradual decrease, from 33.33% to 25% in 2022.

Taking account of the rate change has a positive impact on the accounts at 31 December 2017 of €20 M.

In accordance with the description in Note 5.9.6.4, tax assets relating to deficits contributed to the "TERÉGA HOLDING" tax consolidation are not recognised in these consolidated financial statements.

Taking into account this asset, the theoretical tax expense would be as follows:

In thousands of euros	2018	2017
Payable tax (corporate tax at normal rate / additional and exceptional contribution)	(38,325)	(48,306)
Deferred taxes	(3,676)	29,313
Income tax	**(42,001)**	**(18,993)**

5.10.5.2 Reconciliation between actual tax and theoretical tax

In thousands of euros	2018	2017
Tax rate	**34.43%**	**34.43%**
Profit (loss) for the period attributable to:		
- owners of the company	49,994	91,713
Consolidated profit (loss) after tax of the consolidated companies	**49,994**	**91,713**
Payable tax	(38,325)	(48,306)
Deferred tax	(26,746)	2,746
Income tax	**(65,071)**	**(45,561)**
Consolidated profit (loss) before tax of the consolidated companies	**115,065**	**137,274**
Theoretical tax (at the tax rate of the consolidating company)	**(39,621)**	**(47,268)**
Differences in tax rates	861	31,708
Permanent differences between the book profit (loss) and the tax profit (loss)	274	(93)
Non-capitalised tax losses	(18,734)	(22,218)
Non-deductible interest	(8,557)	(8,455)
Share in costs & dividend expenses and withholding tax	(22)	-
corporate tax adjustment	25	2
Tax credits	703	765
Effective tax	**(65,071)**	**(45,561)**

5.10.6 Employee benefits

5.10.6.1 Variation in the net obligation

In thousands of euros	31/12/2018	31/12/2017
Opening net obligation	25,257	25,189
Changes to scope	-	-
Cost of services provided over the period	6,602	2,111
Post-employment cost	-	-
Interest expenses	276	320
Actuarial gains and losses CET and MDT	(68)	269
Departure from the scheme	-	-
Actuarial gains and losses	(973)	(1,770)
Benefits paid by the employer	(1,978)	(862)
Employee benefits	**29,116**	**25,257**

The staff benefits are primarily composed of the following elements:

- MIP (Mutuelle de l'Industries du Pétrole): supplemental health scheme,
- Early retirement right (CAA): pension scheme whose purpose is to provide a retirement allowance to employees with sufficient years worked,
- End-of-career compensation: payment of capital owed to the employee by the company at the time of retirement,
- Long-service awards: capital paid to the employee when the employee reaches a certain seniority group,
- PEC (Savings Plan selected): days that the former seconded employees have acquired and which they may use in order to retire earlier,
- Malakoff: company insurance scheme,
- CET (Time Savings Account): the aim is to allow employees who so wish to accumulate paid leave rights.

Company agreements

On 17 October 2018 and 18 December 2018 respectively, TERÉGA SA signed an "Early Transfer of Business" agreement and a "Retirement Compensation" agreement that impacted personnel expenses in the consolidated income statement for €4,087 K and €1,185 K as well as the deferred tax item accordingly.
In accordance with IAS 19, these agreements are analysed as post-employment costs and have a direct impact on 2018 earnings of -€3,893 K (see note 5.10.3.2 – this €3,893 K is included in the "allocations to pension commitments" of €5,711 K).

5.10.6.2 Net expense recognised in profit (loss)

In thousands of euros	2018	2017
Cost of services provided over the period	(6,602)	(2,111)
Post-employment cost	-	-
Interest expenses	(276)	(320)
Actuarial variations time off in lieu account	68	(269)
Cost of services provided over the period and interest expenses	**(6,810)**	**(2,700)**
Used during the year	1,978	862
Expense recorded in profit (loss)	**(4,832)**	**(1,838)**

5.10.6.3 *Actuarial assumptions*

The actuarial valuation of social commitments under IAS 19 was carried out by an independent actuary.

	31/12/2018	31/12/2017
Discount rate on the closing date		
Gratuities	1.50%	0.75%
Other schemes		1.25%
Expected rate of return on the assets in the scheme	1.50%	1.50%
Average salary increase rate	3.00%	3.00%
Employer contribution rate		
Gratuities	40.00%	40.00%
Other schemes	55.00%	55.00%
Revenues rate	Executive/Non-Executive tables with decreasing rates according to age and zero over age of 55	Executive/Non-Executive tables with decreasing rates according to age and zero over age of 55
Retirement age	Executive: 62 to 66 years of age Non-Framework: 60 to 63 years of age	Executive: 62 to 66 years of age Non-Framework: 60 to 63 years of age
Life table	Employment phase: TH/TF 00-02 Retirement phase: TGH/TGF 05	Employment phase: TH/TF 00-02 Retirement phase: TGH/TGF 05

5.10.7 Staff

	31/12/2018	31/12/2017
Staff by category		
- Executives	261	238
- Non-Executive	360	358
Total staff	621	596
Average staff numbers during the financial year		
- Executives	254.59	225.94
- Non-Executive	361.08	357.42
Average total staff	615.67	583.36

5.11 Related parties

The related parties are mainly the sole partner, TERÉGA Holding SAS and the Group Management.

Executive remuneration is not presented in the notes to the consolidated financial statements as this would indirectly lead to showing individual remuneration.

5.12 Off-balance sheet commitments

5.12.1 Commitments made

No commitments were made by the Group at 31 December 2018 or 31 December 2017.

5.12.2 Commitments received

In thousands of euros	*Nature*	Valuation at 31/12/2018	Valuation at 31/12/2017
Customer bank guarantees	Teréga SA	49,216	74,009
Supplier bank guarantees	Teréga SA	27,998	31,621
Total commitments		**77,213**	**105,630**

5.13 Subsequent events

On 19 March 2019, TERÉGA SA received a letter from the DVNI informing it that the assessment regarding the deductibility of the depreciation on cushion gas had been withdrawn.

This letter marks the end of the tax audit covering 2013 to 2015 and set out in note 5.6.

Tax audits

Audit of Accounting for Tax Years 2013/2014/2015

On 19 March 2019, TERÉGA SA received a letter from the DVNI informing it that the assessment regarding the deductibility of the depreciation on cushion gas had been withdrawn.

Accounting audit for financial years 2016 and 2017

The audit is still in progress.

Consent

On 1 October 2019, Teréga obtained consent from its bondholders to change the conditions of banking ratios with a view to additional financing.