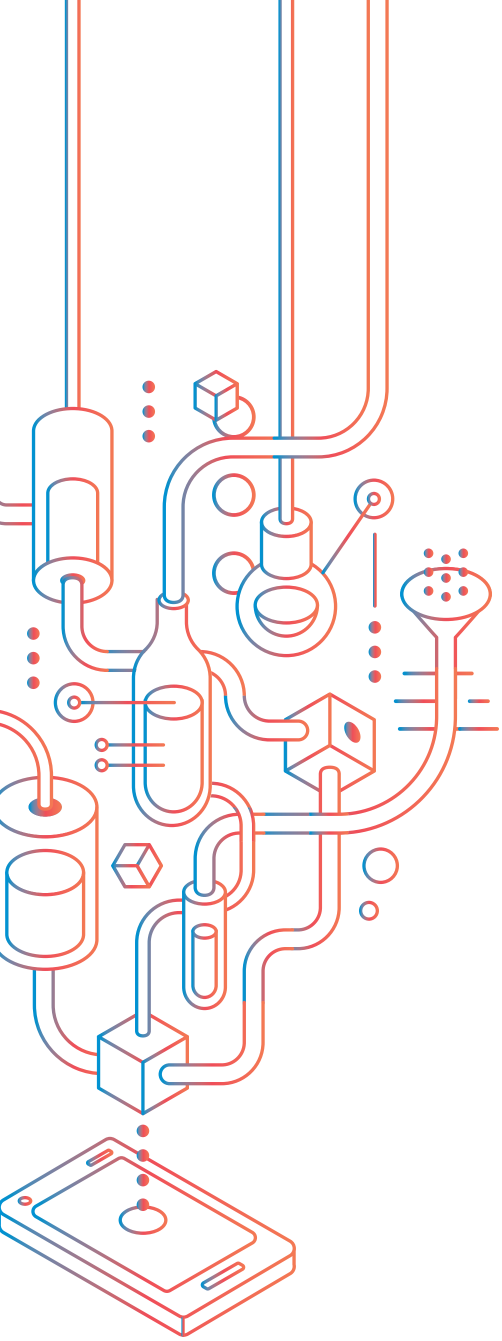
TERĒGA
LE GAZ, ACCÉLÉRATEUR D'AVENIR

CONSOLIDATED FINANCIAL STATEMENTS
TERÉGA SAS 2019

TERĒGA



SUMMARY

1. CONSOLIDATED STATEMENT OF INCOME

In thousands of euros

	Notes	2019	2018
Revenues	5.10.1	499.479	456.872
Other income	5.10.2	2.491	4.007
Purchases consumed	5.10.3	(61.518)	(39.473)
Personnel expenses	5.10.3	(61.693)	(62.195)
External expenses	5.10.3	(58.214)	(59.073)
Taxes and duties		(19.039)	(14.844)
Allowances for amortisation/depreciation & provisions	5.9.2 - 5.9.3	(102.839)	(131.645).
Other current operating income and expenses		(3.518)	(3.008)
Current operating profit/loss		195.148	150.640
Other non-current operating income and expenses	5.6	(3.562)	10
Operating profit/loss		191.586	150.650
Net financial debt cost	5.10.4	(37.031)	(36.856)
Other financial income and expenses	5.10.4	(15.200)	1.270
Pre-tax profit (loss)		139.355	115.065
Income tax	5.10.5	(62.513)	(65.071)
Net profit (loss) for the period		76.841	49.994
Profit (loss) for the period attributable to:			.
- owners of the company		76.841	49.994
- equity interest without control		-	-
Earnings per share		1.57	1.02
Diluted earnings per share		1.57	1.02

In thousands of euros

	Notes	2019	2018
Net profit/loss		76.841	49.994
Other elements of comprehensive income			
Actuarial gains and losses		(2.462)	973
Actuarial gains and losses	5.9.6.1	636	(251)
Elements not to be reclassified in profit (loss) subsequently		(1.826)	722
Total other elements of the comprehensive income		(1.826)	722
Total comprehensive income		75.015	50.715
Attributable to the owners of the company		75.015	50.715

2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros

	Notes	31/12/2019	31/12/2018
Assets			
Goodwill	5.9.2	420.756	420.756
Other intangible assets	5.9.2	93.730	83.423
Tangible assets	5.9.3	2.415.399	2.385.990
Other non-current financial assets		379	1.151
Deferred tax assets	5.9.6.1	23	5
Non-current assets		2.930.286	2.891.325
Inventory	5.9.4	25.223	22.591
Other current financial assets		119	50
Trade receivables	5.9.5	60.099	69.103
Current payable tax receivables		5.291	2.961
Other current assets		2.914	17.159
Cash and cash equivalents	5.9.7	38.462	33.680
Current assets		132.108	145.544
Total assets		3.062.395	3.036.869
Shareholder equity and liabilities			
Capital	5.9.8	489.474	489.474
Issue premiums	5.9.8	71.053	71.053
Reserves	5.9.8	(118.543)	(114.433)
Convertible bonds	5.9.8	670.000	670.000
Profit (loss) for the year attributable to the owners of the company	1	76.841	49.994
Shareholder equity attributable to the owners of the company		1.188.825	1.166.087
Total shareholder equity		1.188.825	1.166.087
Non-current financial debts	5.9.10	1.425.565	1.423.265
Employee benefits	5.10.6	31.672	29.116
Deferred tax liabilities	5.9.6.1	243.129	233.171
Non-current liabilities		1.700.366	1.685.552
Current financial debts	5.9.10	74.149	81.832
Current provisions	5.9.9	830	2.501
Trade payables	5.9.11	61.960	66.942
Payable tax liabilities		-	-
Other current liabilities	5.9.12	36.264	33.955
Current liabilities		173.203	185.230
Total shareholder equity and liabilities		3.062.395	3.036.869

3. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

In thousands of euros

	Capital	Issue premiums	Non-distributed profit (loss)	Actuarial reserves	Convertible bonds (1)	Other reserves	Consolidated reserves	Total shareholder equity
Shareholder equity at 31 December 2017	489.474	71.053	8.216	(2.178)	670.000	9.958	(71.532)	1.174.991
Total comprehensive income for the period								
Profit (loss)			49.994					49.994
Total of other comprehensive income				722				722
Total comprehensive income for the period	**-**	**-**	**49.994**	**722**	**-**	**-**	**-**	**50.715**
Interest from convertible bonds							(35.146)	(35.146)
Dividends		-	(24.474)			-	-	(24.474)
Total contributions and distributions from / to owners of the company	**-**	**-**	**(24.474)**	**-**		**-**	**(35.146)**	**(59.619)**
Shareholder equity at 31 December 2018	**489.474**	**71.053**	**33.736**	**(1.456)**	**670.000**	**9.958**	**(106.678)**	**1.166.087**
Shareholder equity at 31 December 2018	489.474	71.053	33.736	(1.456)	670.000	9.958	(106.678)	1.166.087
Total comprehensive income for the period								
Profit (loss)			76.841					76.841
Total other elements of comprehensive income				(1.826)		-	-	(1.826)
Total comprehensive income for the period	**-**	**-**	**76.841**	**(1.826)**	**-**	**-**	**-**	**75.015**
Interest from convertible bonds							(35.146)	(35.146)
Dividends		-	(17.132)				-	(17.132)
Total contributions and distributions from / to owners of the company	**-**	**-**	**(17.132)**	**-**	**-**	**-**	**(35.146)**	**(52.277)**
Shareholder equity at 31 December 2019	**489.474**	**71.053**	**93.446**	**(3.282)**	**670.000**	**9.958**	**(141.823)**	**1.188.826**

(1) Convertible bonds issued by the Group are considered as equity instruments according to IAS 32. 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	31/12/2019	31/12/2018
Net profit (loss) for the period	1	76.841	49.994
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	101.099	135.810
Income tax	5.10.5.1	62.513	65.071
Financial result	5.10.4	52.231	36.883
Neutralisation as elements classed as investment flows		-	1
Change in working capital requirement		16.283	(5.464)
Tax paid		(35.813)	(40.439)
Net cash flow related to operating activities		273.156	240.559
Acquisition of tangible and intangible assets	5.9.2 - 5.9.3	(140.732)	(183.489)
Transfer of fixed assets		-	0
Investment grants received		-	14.926
Change in loans and other financial assets		704	6
Interest received		0	2
Dividends received		-	1.297
Net cash flow related to investment activities		(140.028)	(167.257)
Dividends paid by the consolidating company		(17.132)	(24.474)
Issue of loans	5.9.10	246.854	66.577
Loan repayments	5.9.10	(244.553)	(15.987)
Interest paid		(98.314)	(98.291)
Other financial expenses paid	5.6	(15.200)	-
Net cash flow related to financing activities		(128.345)	(72.175)
Impact of exchange rate fluctuations		-	-
Change in cash flow		4.783	1.127
Opening cash and cash equivalents		33.680	32.552
Cash and cash equivalents at close	5.9.7	38.462	33.680

At 31/12/2019, the interest on ORA was reclassified from the “loan repayments” line to the “loan issues” line.

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 year ended 31 December 2019 are drawn up in relation to the Company and its subsidiaries, 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).

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 2019 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 STANDARDS, INTERPRETATIONS AND AMENDMENTS APPLIED

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 drawn up on 31 December 2019:

IFRS ADOPTED BY THE EU (and related amendments)	IMPACT	SEE 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 and 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 Customers	NS	Note 5.5.8
IFRS 16 - Leases	NS	Note 5.5.9

5.3.2.1 New mandatory standards, amendments and interpretations

Mandatory Standards, Amendments and Interpretations as of 1 January 2019

The Group has applied the following standards applicable as of 1 January 2019:

IFRS 16 – «Leases»

IFRS 16 eliminates the distinction between simple lease and financial lease in IAS 17 and requires almost all lease agreements on the balance sheet:

- an asset representative of the right of use of the leased asset during the term of the contract;

- offsetting a liability in respect of the obligation to pay rents.

The application of IFRS 16 has 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 will therefore have no significant consequences in the Group's consolidated financial statements as at 31 December 2019.

5.3.2.2 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.

5.3.3 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 and 5.10.6.3);
- 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 principles;
- the measurement of the recoverable value of the goodwill (assumptions described in note 5.5.1.1);
- the measurement of the obligations linked to specified benefit plans (assumptions described in note 5.5.6);
- the valuation of the financial instruments (see note 5.5.2.3);
- the measurement of deferred tax assets (see note 5.5.11);
- the estimation of disputes concerning tax audits (see note 5.6).

5.4 CONSOLIDATION PRINCIPLES

The acquired subsidiaries are consolidated in the Group's financial statements from the date of their acquisition of control or, for reasons of convenience, if the impact is not material, from the date of establishment of the most recent consolidated balance sheet.

The consolidated financial statements presented in this document cover the period from 1 January to 31 December 2019. 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 transactions in account between the fully consolidated 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

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**
	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 borrowing 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 was revalued at its fair value with a negative 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 taxe 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, TERÉGA NEWCO 1, TERÉGA NEWCO2 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, TERÉGA NEWCO 1, TERÉGA NEWCO2 and TERÉGA SAS as if they were taxed separately.

The reintegration of financial expenses has also been maintained at the TERÉGA HOLDING level, with taxation at the group level.

5.5.2 ACCOUNTING POLICIES AND VALUATION RULES

The accounting methods described below were applied systematically 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 32.

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.

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 accounting practice 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 position 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 turnover mainly corresponds to the income from transmission and storage capacities but also income 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.

- IFRS 16 eliminates the distinction between simple lease and financial lease in IAS 17 and requires almost all lease agreements on the balance sheet: an asset representative of the right of use of the leased asset during the term of the contract;
- offsetting a liability in respect of the obligation to pay rents.

The application of IFRS 16 has no significant consequences in 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 financial year 2019, the tax rate applied by the group is 34.43 %.

The 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.

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.

The Group assesses its tax uncertainties in accordance with the principles of IFRIC 23; the application of this standard will therefore not have a significant impact on the Group's consolidated financial statements.

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

New pricing framework

2019 was marked by the definition by the Energy Regulatory Commission (CRE) of the next ATRT7 and ATS2 tariffs, which will come into force in 2020, for a period of 4 years, through the final deliberations 2020-011 and 2020-012 of 23 January 2020.

Project STEP

In 2016, TERÉGA SA and ENAGAS initiated conceptual studies concerning the STEP project.

In July 2018 and in accordance with Regulation (EU) No 347/2013, TERÉGA SA and ENAGAS submitted an investment application for the STEP project to the relevant regulators (CRE, CNMC and ERSE).

On 22 January 2019, regulators published their decision on the investment application not reaching a joint agreement.

On June 20, 2019, the ACER notified TERÉGA SA and ENAGAS that the STEP project was not mature enough for a Cross-border Costs Allocation decision. However, the Agency's conclusion did not exclude the possibility for proponents to review the investment application.

On 31 October 2019, the European Commission published its 4th list of projects of common interest without the STEP project.

As a result, TERÉGA SA decided to stop this project. The capitalised costs of €5.2 million were written off and the subsidies for €1.7 million paid by the European Commission recognised as income. The net impact on the financial statements as at 31 December 2019 thus amounted to €3.5 million.

Refinancing

Renewal of the RCF credit line

On 26 July 2019, TERÉGA SA amended and updated its syndicated, variable rate, revolving credit line of €250 million, put in place on 28 July 2015, with a maturity date of July 2022. The new line has a 5-year term, maturing in July 2024, and two one-year extension options with leading international banks. It was drawn for €65 million at the end of December 2019.

On 26 July 2019, TERÉGA SAS opened a revolving credit line for a maximum amount of €50 million, with a maturity in July 2024. This line was not drawn at the end of December 2019

Modification of bond contracts

On 12 September 2019, the Company convened its bondholders at general meetings on 30 September, for the purpose of approving certain changes to the terms and conditions of the bonds, with the main objective being to raise the lock-up ratios, in order to obtain additional financial flexibility in line with the valuation grid used by Moody's France SAS for the Baa2 long-term rating of the company.

All changes requested by TERÉGA SA were approved by the bondholders. These changes have been effective since 18 October 2019.

As a result of the approval of the amendments by the holders of government bonds maturing in 2021 and 2025 and the holders of bonds maturing in 2035, a consent fee was granted for €15.2 million. This fee was paid on 18 October 2019. This sum is spread over the various maturities of the bonds resulting in an impact on the financial statements ended 31 December 2019 of €563,000.

Tax audits

On 19 December 2018, TERÉGA SA received an inspection notice from the DVNI (national and international audit directorate) covering financial years 2016 and 2017.

The proposed correction issued by the auditor service was received on 15 November 2019 and does not reveal any material items.

Domestic energy consumption tax (DECT)

As part of its business, TERÉGA SA consumes natural gas for its own needs. These consumptions may be subject to an internal consumption tax depending on their use.

It is in this perspective that TERÉGA SA joined the Directorate General for Customs and Direct Rights (DGDDI) on 14 June 2019 in order to obtain a position from the customs administration relating to these natural gas consumptions.

On 19 August 2019, DGDDI confirmed TERÉGA SA's liability to DECT on gas consumption used as fuel in turbochargers.

TERÉGA SA made a provision in its financial statements as at 31 December 2019 for an accrued expense of €3,489,471 covering non-prescribed financial years for which the company will make an adjustment in 2020.

5.7 INFORMATION RELATING TO THE SCOPE

The scope of consolidation is as follows:

	31/12/2019			31/12/2018		
Companies	Consolidation method	% control	% stake	Consolidation method	% control	% stake
TEREGA SA	Full consolidation	100.00%	100.00%	Full consolidation	100.00%	100.00%
TEREGA Newco 1	Full consolidation	100.00%	100.00%	Full consolidation	100.00%	100.00%
TEREGA Newco 2	Full consolidation	100.00%	100.00%	Full consolidation	100.00%	100.00%
TEREGA SAS	Full consolidation	100.00%	100.00%	Full consolidation	100.00%	100.00%

5.8 INFORMATION ON THE COMPARABILITY OF ACCOUNTS

5.8.1 CHANGE IN PRESENTATION

There is no change in the presentation of the accounts between 31 December 2019 and 31 December 2018.

5.8.2 CHANGE IN ACCOUNTING METHOD

There is no change in accounting method as at 31 December 2019.

5.8.3 CHANGE IN ACCOUNTING ESTIMATE

There is no change in accounting method as at 31 December 2019

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 during the year is as follows:

Gross values (In thousands of euros)	31/12/2017	Acquisitions	Transfers/ Scrapping	31/12/2018	Acquisitions	Transfers/ Scrapping	31/12/2019
Goodwill	420.761	-	-	420.761	-	-	420.761
Development costs	-	536	-	536	2.979	-	3.515
Software	81.515	22.290	(5.440)	98.365	22.075	(10.385)	110.055
Customers	38.711	-	-	38.711	-	-	38.711
Current intangible assets	6.249	360	-	6.609	1.696	-	8.304
Gross values	547.237	23.186	(5.440)	564.982	26.749	(10.385)	581.347

Depreciation and impairment (In thousands of euros)	31/12/2017	Allowances	Transfers/ Scrapping	31/12/2018	Allowances	Transfers/ Scrapping	31/12/2019
Impairment of goodwill	(5)	-	-	(5)	-	-	(5)
Depr./Imp. devel. costs	-	(6)	-	(6)	(133)	-	(138)
Depr./Imp. of software	(46.605)	(13.632)	5.440	(53.797)	(15.019)	10.385	(58.431)
Amortisation/Impairment of software	(5.706)	(1.290)	-	(6.996)	(1.290)	-	(8.287)
Depreciation and impairment	(51.316)	(14.928)	5.440	(60.804)	(16.442)	10.385	(66.861)
Net book value	495.921	8.257	-	504.178	10.307	-	514.486

Goodwill:

As at 31 December 2019, the impairment tests carried out did not lead to restatements.

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 ATS2 and ATR7.

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

Software:

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)	31/12/2017	Acquisitions	Transfers/ Scrapping	31/12/2018	Acquisitions	Transfers/ Scrapping	31/12/2019
Land	10.212	214		10.426	606	-	11.031
Land development	10.506	220	(1)	10.724	331	-	11.057
Buildings	88.721	4.547	(4.662)	88.607	6.295	-	94.902
Investment properties	-	-		-	-	-	-
Tech installations, material & tools	2.605.261	212.331	(925)	2.816.668	134.465	(534)	2.950.598
Other tangible assets	1.291	260	(15)	1.536	301	(83)	1.755
Office equipment	847	277	(105)	1.019	637	(23)	1.633
Transmission equipment	3	1	-	5	-	-	5
IT equipment	4.796	1.471	(709)	5.548	843	(444)	5.947
Current tangible assets	134.698	(73.936)		60.762	(27.830)	-	32.932
Advances and deposits on tang. assets	99		(10)	89		(5)	85
Gross values	**2.856.424**	**145.387**	**(6.426)**	**2.995.385**	**115.647**	**(1.088)**	**3.109.944**

Depreciation and impairment (In thousands of euros)	31/12/2017	Allowances	Transfers/ Scrapping	31/12/2018	Allowances	Transfers/ Scrapping	31/12/2019
Depreciation of land	0	-	-	-	-	-	-
Depr./Imp. Land development	(4.267)	(968)	-	(5.235)	(954)	-	(6.190)
Depreciation/Impairment on buildings	(16.060)	(4.565)	1.081	(19.544)	(4.590)	-	(24.134)
Depr./Imp. on investment property	-	-	-	-	-	-	-
Depreciation/Impairment on technical installations, material & tools	(477.671)	(104.405)	925	(581.152)	(79.269)	534	(659.886)
Depreciation/Impairment on other tangible assets	(761)	(75)	15	(821)	(102)	83	(841)
Depr./Imp. Office equipment	(301)	(96)	105	(292)	(147)	23	(416)
Depr./Imp. Transmission equipment	(1)	(0)	-	(1)	(0)	-	(2)
Depr./Imp. IT equipment	(2.087)	(970)	709	(2.349)	(1.172)	444	(3.076)
Depr./Imp. Biological assets	0	-	-	-	-	-	-
Depr./Imp. current tangible assets	0	-	-	-	-	-	-
Depr. advances and deposits on tang. assets	0	-	-	-	-	-	-
Depreciation and impairment	**(501.148)**	**(111.080)**	**2.833**	**(609.395)**	**(86.234)**	**1.084**	**(694.545)**
Net book value	**2.355.277**	**34.306**	**(3.593)**	**2.385.990**	**29.413**	**(5)**	**2.415.399**

5.9.3.1 TANGIBLE ASSETS BY ACTIVITY

5.9.3.1.1 Transmission

In K€ Section	Net values 31/12/2018	Changes Values	Changes Amortisation	Values 31/12/2019
Intangible assets	**330.375**	**10.401**	**(1.830)**	**338.946**
Goodwill	294.529	-	-	294.529
Development costs	331	2.588	(86)	2.833
Software	31.857	6.383	(1.744)	36.496
Current intangible assets	3.658	1.431	-	5.089
Tangible assets	**1.314.141**	**79.260**	**(49.301)**	**1.344.100**
Land	9.155	638	(316)	9.477
Building on own land	33.316	3.178	(1.685)	34.809
General facilities	14.755	1.854	(1.483)	15.126
Technical Installations, Equipment, Tools	1.212.164	83.797	(45.258)	1.250.703
Transmission equipment	3	-	(0)	3
Office IT equipment + furniture	3.160	829	(558)	3.430
Current tangible assets	41.510	(11.030)	-	30.479
Advances and down payments	78	(5)	-	73
Total	**1.644.516**	**89.661**	**(51.131)**	**1.683.047**

This year, the distribution of Transmission capital assets was refined as at 31 December 2019, based on ERP data. The recovery of the data as at 31 December 2018 was modified accordingly.

5.9.3.1.2 Storage

In K€ Section	Net values 31/12/2018	Changes Values	Changes Amortisation	Values 31/12/2019
Intangible assets	**173.803**	**5.964**	**(4.227)**	**175.540**
Goodwill	126.227	-	-	126.227
Development costs	200	391	(47)	544
Software	12.711	5.307	(2.890)	15.128
Customers	31.715	-	(1.290)	30.425
Current intangible assets	2.951	265	-	3.216
Tangible assets	**1.071.849**	**35.298**	**(35.850)**	**1.071.298**
Land	6.760	299	(638)	6.421
Building on own land	14.918		(841)	14.077
General facilities	6.073	1.263	(580)	6.756
Technical Installations, Equipment, Tools	1.023.352	50.133	(33.477)	1.040.008
General facilities	16	(6)	3	13
Transmission equipment	-	-	-	-
Office IT equipment + furniture	1.465	409	(316)	1.558
Current tangible assets	19.253	(16.800)	-	2.453
Advances and down payments	12	-	-	12
Total	**1.245.653**	**41.262**	**(40.077)**	**1.246.838**

This year, the distribution of Storage capital assets was refined as at 31 December 2019, based on ERP data. The recovery of the data as at 31 December 2018 was modified accordingly.

5.9.4 INVENTORY

Gross values (In thousands of euros)	31/12/2019			31/12/2018		
	Gross values	Depreciations	Net values	Gross values	Depreciations	Net values
Raw materials, supplies and other consumables	27.447	(2.224)	25.223	24.651	(2.061)	22.591
Gross values	**27.447**	**(2.224)**	**25.223**	**24.651**	**(2.061)**	**22.591**

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

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

5.9.5 TRADE RECEIVABLES AND OTHER DEBTORS

In thousands of euros	31/12/2019	31/12/2018
Trade receivables	28.384	25.463
Unbilled revenues	31.716	43.641
Customer deps and related accounts	(0)	(0)
Trade receivables	**60.099**	**69.103**

Unbilled revenues in relation to receivable items mainly concern storage capacity and gas transmission income allocated to December 2019 and invoiced in January 2020.

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	31/12/2018	Profit (loss) of the period	Other elements of comprehensive income	Shareholder equity	Reclassifica-tions	31/12/2019
Deferred tax assets	5	-	-	-	18	23
Deferred tax liabilities	(233.171)	(29.031)	636	18.454	(18)	(243.129)
Net deferred tax	(233.166)	(29.031)	636	18.454	-	(243.106)

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 2019.

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

The valuation of deferred tax assets and liabilities must reflect the tax consequences that would result from how the entity expects, at the closing date, to recover or settle the book value of its assets and liabilities.

5.9.6.2 Deferred tax types for the financial year 2019

	31/12/2018	Profit (loss) of the period	Other elements of comprehensive income	Other reserves	Reclas.	31/12/2017
Deferred tax on the difference between the book profit (loss) and the fiscal profit (loss)	2.026	(428)	-	-	-	1.598
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 for tangible and intangible assets (allocation of the acquisition price)	(184.593)	(3.571)	-	-	-	(188.164)
Deferred tax on expenses from the acquisition of securities	39.942	-	-	-	-	39.942
Deferred tax on cancellation of regulated provisions	(103.403)	(8.641)	-	-	-	(112.044)
Deferred tax on social commitments	6.707	302	636	-	-	7.645
Tax deferred according to IFRIC 21 C3S standard	(184)	(4)		-	-	(188)
Deferred tax on adjustment of financial debt (fair value and effective interest rate)	6.340	(16.688)		18.454	-	8.106
Deferred tax on the revaluation of cash flow	0	-	-	-	-	0
Net deferred tax	**(233.165)**	**(29.031)**	**636**	**18.454**	**-**	**(243.106)**
Of which deferred tax assets	5	-		-	18	23
Of which deferred tax liabilities	(233.165)	(29.031)	636	18.454	(18)	(243.129)
Net deferred tax	**(233.165)**	**(29.031)**	**636**	**18.454**	**-**	**(243.106)**

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	31/12/2017	Profit (loss) of the period	Other elements of comprehensive income	Shareholder equity	Reclassifications	31/12/2018
Deferred tax assets	-	-	-	-	(4.358)	5
Deferred tax liabilities	(228.986)	(26.746)	(251)	18.454	4.358	(233.171)
Impôt différé net	(228.986)	(26.746)	(251)	18.454	-	(233.166)

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

	31/12/2017	Profit (loss) of the period	Assets at fair value through profit or loss	Other reserves	Reclassifications	31/12/2017
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 for tangible and intangible assets	(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	-	6.339
Deferred tax on the revaluation of cash flow hedges	(0)	-	-	-	-	(0)
Net deferred tax	**(224.623)**	**(26.746)**	**(251)**	**18.454**	**-**	**(233.165)**
Of which deferred tax assets	4.363	-		-	(4.358)	5
Of which deferred tax liabilities	(228.986)	(26.746)	(251)	18.454	4.358	(233.166)
Net deferred tax	**(224.623)**	**(26.746)**	**(251)**	**18.454**	**-**	**(233.165)**

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 SAS.

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 €18,685 K as at 31 December 2019 and €23,070 K as at 31 December 2018.

5.9.7 CASH AND CASH EQUIVALENTS

In thousands of euros	31/12/2019	31/12/2018
Marketable securities - Cash equivalents Cash and cash equivalents	- 38.462	17.021 16.658
Total net cash	**38.462**	**33.680**

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.

5.9.8 CAPITAL AND RESERVES

At 31 December 2019, the share capital amounted to €489,474 K, consisting of 48,947,355 shares with a nominal value of €10.

The Group set up external funding as well as a bond loan redeemable for shares (ORA) of a nominal value of €790,000 K, initially taken out over 30 years. Convertible bonds issued by the Group are considered as equity instruments according to IAS 39. The interest expenses on the ORA (after tax) are classified as shareholder equity.

On 26 February 2015, €120,000 K of the ORA was 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 2019.

5.9.9 PROVISIONS

In thousands of euros	31/12/2017	Allowances	Reversals used	31/12/2018	Allowances	Reversals used	31/12/2019
Provisions for disputes - non-current		-	-	-	-	-	-
Non-current provisions	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Provisions for disputes - current	660	19	(170)	509	-	-	509
Provisions for restructuring - current	-	1.539	-	1.539	-	(1.539)	-
Other provisions for expenses - current	453	-	-	453	-	(132)	321
Current provisions	**1.113**	**1.558**	**(170)**	**2.501**	**-**	**(1.671)**	**830**
Total provisions	**1.113**	**1.558**	**(170)**	**2.501**	**-**	**(1.671)**	**830**

A provision is recorded when the Group has a current legal or constructive obligation as a result of a past event, that the obligation may be reliably estimated and that it is likely that an outflow of resources representative of economic benefits will be required to settle the obligation.

5.9.10 FINANCIAL DEBT

5.9.10.1 Changes in the 2019 financial year

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

In thousands of euros	31/12/2018	Increase	Reduction	31/12/2019
Bond borrowing - non-current	1.421.778	(2.764)	-	1.419.013
Issue of equity securities and state advances - non-current	-	53.600	(53.600)	-
Other loans and similar debts - non-current	1.487	5.618	(553)	6.552
Total non-current	**1.423.265**	**56.454**	**(54.153)**	**1.425.565**
Loans and debt with credit institutions - current	65.000	244.000	(244.000)	65.000
Accrued interest on loans - current	16.832	44.034	(51.717)	9.149
Total non-current	**81.832**	**288.034**	**(295.717)**	**74.149**
Total financial debt	**1.505.097**	**344.487**	**(344.487)**	**1.499.714**

	31/12/2019					
In thousands of euros	Total	N+1	N+2	N+3	N+4	>=N+5
Bond issues	1.419.013	-	524.390	-	-	894.624
Loans from credit institutions	65.000	65.000	-	-	-	-
Other loans and similar debts	6.552	-	6.552	-	-	-
Accrued interest on borrowing	9.149	9.149	-	-	-	-
Total financial debt	**1.499.714**	**74.149**	**530.942**	**-**	**-**	**894.624**

The financial structure is composed of:

- Bonds for €1,419,013 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%

- RCF reserve loan with a drawdown capacity of €250,000 K. The RCF was the subject of a €65 million drawdown in December 2019, to be repaid in less than a year.
- Accrued interest on loans for €9,149 K
- Other non-current loans and similar debts for €6,552 K (mainly customer guarantees equivalent to deposits and guarantees received)

The Group complies with its contractual commitments to banking ratios.

5.9.10.2 Changes in the 2018 financial year

In thousands of euros	31/12/2017	Increase	Reduction	31/12/2018
Bond borrowing - non-current	1.429.818	-	(8.040)	1.421.778
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
Total non-current	**1.430.715**	**55.177**	**(62.628)**	**1.423.265**
Loans and debt with credit institutions - current	15.000	65.000	(15.000)	65.000
Accrued interest on loans - current	16.627	44.250	(44.045))	16.832
Total non-current	**31.627**	**109.250**	**(59.045)**	**81.832**
Total financial debt	**1.462.342**	**164.427**	**(121.673)**	**1.505.097**

	31/12/2018					
In thousands of euros	Total	N+1	N+2	N+3	N+4	>=N+5
Bond issues	1.421.778	-	-	525.377	-	896.401
Loans from credit institutions	65.000	65.000	-	-	-	-
Other loans and similar debts	1.487	-	1.487	-	-	-
Accrued interest on borrowing	16.832	16.832	-	-	-	-
Total financial debt	**1.505.097**	**81.832**	**1.487**	**525.377**	**-**	**896.401**

5.9.10.3 Net financial debt

Net financial debt In thousands of euros	31/12/2017	Change in the period	31/12/2018	Change in the period	31/12/2019
Gross cash	32 552	1 127	33 680	4 783	38 462
Debit balances and current bank loans	-	-	-	-	-
Net cash	**32 552**	**1 127**	**33 680**	**4 783**	**38 462**
Gross financial debt	1 462 342	42 754	1 505 097	(5 382)	1 499 714
Net financial debt	**1 429 790**	**41 627**	**1 471 417**	**(10 165)**	**1 461 252**

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 and constructive control, in which all the 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:

	31/12/2019					
In thousands of euros	Total	N+1	N+2	N+3	N+4	>=N+5
Trade receivables	60.099	60.099	-	-	-	-
Current payable tax receivables	5.291	5.291	-	-	-	-
Social receivables	168	168	-	-	-	-
Tax receivables	1.765	1.765	-	-	-	-
Other receivables	106	106	-	-	-	-
Total receivables	**67.429**	**67.429**	**-**	**-**	**-**	**-**

In view of the types of customers, which are large European gas producers and the relatively small number of shipping customers (58 at 31 December 2019), 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.

- **Balance sheet of financial instruments**

  The market values of financial assets and liabilities measured at fair value in the statement of financial position were classified according to the hierarchy below as defined by IFRS 7:

  - Level 1: the fair value is based on the listed prices (non-adjusted) observed on active markets, for identical assets or liabilities.
  - Level 2: the fair value measured with the help of data («inputs»), other than the prices in level 1, which may be observed for the assets or the liabilities in question, either directly (in price form) or indirectly (determined on the basis of price).
  - Level 3: the fair value measured with the help of data («inputs») which are not based on observable market data (non-observable «inputs»).

5.9.11 TRADE PAYABLES AND OTHER CREDITORS

In thousands of euros	31/12/2019	31/12/2018
Trade payables	6.624	7.965
Invoices not yet received	55.336	58.977
Trade payables	**61.960**	**66.942**

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.

5.9.12 OTHER CURRENT LIABILITIES

In thousands of euros	31/12/2019	31/12/2018
Employment-related debts - current	22.381	21.785
Tax debts (except corporate tax and company added-value contribution) - current	11.472	9.730
Other debts - current	2.410	2.376
Deferred income & other accrual accounts	-	63
Other current liabilities	**36.264**	**33.955**

The increase in tax debts is due to the DECT provision (see note 5.6).

5.9.13 OTHER CURRENT ASSETS

In thousands of euros	31/12/2019	31/12/2018
Suppliers - Advances and advances paid	-	13.624
Debtor suppliers (discounts, rebates, reductions and other credit notes)	875	1.485
Receivables from employees & social security bodies	168	85
Tax receivables - excluding corporate tax - current	1.765	1.883
Other receivables - current	45	6
Prepaid expenses	61	75
Gross values	**2.914**	**17.159**

The down payment recorded at the end of 2018 following the purchase of cushion gas for €13,624 K was settled over the 2019 financial year.

5.10 NOTES ON THE CONSOLIDATED INCOME STATEMENT

5.10.1 INCOME

In thousands of euros	Exercice 2019	Exercice 2018
Production of services sold	476.549	436.438
Sales of goods	22.930	20.344
Other rebilling with margin	-	89
Revenues	**499.479**	**456.872**

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	2019	%	2018	%
Transmission	338.256	68%	303.353	66%
Storage	161.223	32%	153.519	34%
Revenues	**499.479**		**456.872**	

Revenues are generated entirely in France.

5.10.2 OTHER INCOME

The following are the most significant elements:

In thousands of euros	2019	2018
Operating grants	-	16
Other income	2.288	3.741
Transfers of operating expenses	203	249
Other income	**2.491**	**4.007**

Other income is mainly from re-billing 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	2019	2018
Purchases of RM, supps. & other goods	(25.446)	(21.500)
Change RM invent., supps. & other goods	2.795	1.565
Purchase of studies	-	(100)
Other purchases	(12)	1
Non-inventory purchases of materials and supplies	(38.855)	(19.438)
Purchases consumed	**(61.518)**	**(39.473)**

The increase in purchases not stored corresponds to the setting up of the TRF (Trading Region France) at the end of 2018. From now on, there is only one common PEG (Gas Exchange Point). The mechanism requires a payment to GRT GAZ in respect of its income at the PIRINEOS point. This payment was €16,489 K in 2019.

5.10.3.2 Personnel expenses

In thousands of euros	2019	2018
Staff remuneration	(34.533)	(31.425)
Social sec. and provident expenses	(17.441)	(16.280)
Other personnel expenses (including incentive schemes)	(6.026)	(5.658)
Employee profit-sharing	(3.600)	(4.000)
Allocations/Provisions for pension obligations	(1.286))	(5.711)
Reversals/Provisions for pension obligations	1.192	879
Net reversal / (allocation) for pension obligations	*(94)*	*(4.832)*
Personnel expenses	**(61.693)**	**(62.195)**

The change in personnel expenses of €508 K between fiscal years 2018 and 2019 is explained by an increase in the workforce (+31) offset by a decrease in the discount rate in actuarial assumptions according to IAS 19 (see note 5.10.6.3).

5.10.3.3 External expenses

In thousands of euros	2019	2018
General sub-contracting	(19.135)	(21.444)
Rentals and rental expenses	(1.819)	(1.813)
Maintenance and repairs	(19.500)	(22.463)
Insurance premiums	(697)	(648)
Miscellaneous	(1.854)	(1.633)
Remuneration of intermediaries & fees	(2.175)	(1.213)
Advertising	(2.029)	(2.499)
Transmission	(181)	(127)
Travel, assignments	(3.216)	(3.197)
Postage costs	(2.772)	(2.611)
Banking services	(3.194)	(171)
Other external expenses	(1.641)	(1.255)
External expenses	**(58.214)**	**(59.073)**

5.10.4 FINANCIAL INCOME AND FINANCIAL EXPENSES

In thousands of euros	2019	2018
Interest on bank borrowing	(10.952)	(10.884)
Interest on bond issues	(26.080)	(26.111)
Net financial debt cost	**(37.031)**	**(36.856)**
Dividends	-	1.297
Financial asset income excl. cash equivalents	-	2
Foreign exchange losses	-	(29)
Other financial expenses	(15.200)	-
Other financial income and expenses	**(15.200)**	**1.270**
Financial result	**(52.231)**	**(35.586)**

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	2019	2018
Payable tax (corporate tax at normal rate / additional and exceptional contribution)	(33.483)	(38.325)
Deferred taxes	(29.031)	(26.746)
Income tax	**(62.513)**	**(65.071)**

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 tax expense would be as follows:

In thousands of euros	2019	2018
Payable tax (corporate tax at normal rate / additional and exceptional contribution)	(33.483)	(38.325)
Deferred taxes	(10.345)	(3.676)
Income tax	**(43.828)**	**(42.001)**

5.10.5.2 Reconciliation between the actual tax and the theoretical tax

In thousands of euros	2019	2018
Tax rate	**34,43%**	**34,43%**
Profit (loss) for the period attributable to owners of the company	76.841	49.994
Consolidated profit (loss) after tax of the consolidated companies	**76.841**	**49.994**
Payable tax	(33.483)	(38.325)
Deferred tax	(29.031)	(26.746)
Income tax	**(62.513)**	**(65.071)**
Consolidated profit (loss) before tax of the consolidated companies	**139.355**	**115.065**
Theoretical tax (at the tax rate of the consolidating company)	**(47.980)**	**(39.621)**
Differences in tax rates	3.583	861
Permanent differences between the book profit (loss) and the tax profit (loss)	(197)	274
Non-capitalised tax losses	-	(18.734)
Non-deductible interest	(4.346)	(8.557)
Share in costs & dividend expenses and withholding tax	-	(22)
Tax and corporate tax adjustment	(14.316)	25
Tax credits	741	703
Effective tax	**(62.513)**	**(65.071)**

5.10.6 EMPLOYEE BENEFITS

5.10.6.1 Variation in the net obligation

In thousands of euros	2019	2018
Opening net obligation	29 116	25 257
Cost of services provided over the period	1 719	6 602
Interest expenses	442	276
Actuarial gains and losses CET and MDT	41	(68)
Actuarial gains and losses	2 462	(973)
Benefits paid by the employer	(2 108)	(1 978)
Employee benefits	**31 672**	**29 116**

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.

5.10.6.2 Net expense recognised in profit (loss)

In thousands of euros	2019	2018
Cost of services provided over the period	(1.719)	(8.372)
Interest expenses	(442)	(552)
Actuarial variations time off in lieu account	(41)	136
Cost of services provided over the period and interest expenses	**(2.202)**	**(8.788)**
Used during the year	2.108	3.956
Expense recorded in profit (loss)	**(94)**	**(4.832)**

5.10.6.3 Actuarial assumptions

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

		31/12/2019	31/12/2018
Taux d'actualisation à la date de clôture	Gratuities Other regimes	0.75%	1.50%
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 Other regimes	40.00% 52.00%	40.00% 55.00%
Turnover rate		Executive/Non-Executive tables with decreasing rates by age and zero over 55 years of age	Executive/Non-Executive tables with decreasing rates according to age and zero over 55 years of age
Retirement age		Executive: 62 to 66 years of age Non-Framework: 60 to 63 years	Executive: 62 to 66 years of age Non-Framework: 60 to 63 years
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

		31/12/2019	31/12/2018
Staff by category - Executives - Workers, employees, technicians, and supervisors		279 384	261 360
	Total staff	663	621
Average staff numbers during the financial year - Executives - Workers, employees, technicians, and supervisors		275.58 370.83	254.59 361.08
	Average total staff	646.41	615.67

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 2019.

5.12.2 COMMITMENTS RECEIVED

In thousands of euros	Nature	Valuation at 31/12/2019	Valuation at 31/12/2018
Customer bank guarantees	Teréga SA	64.120	49.216
Supplier bank guarantees	Teréga SA	12V159	27.998
Total commitments		**76.279**	**77.213**

5.13 SUBSEQUENT EVENTS

Issue of a bond

On 20 February 2020, TERÉGA S.A.S. launched the issue of an eight-year fixed-rate bond on the European market listed on Euronext Paris, for a nominal amount of €400 million. Bonds bear interest at an annual fixed rate of 0.625% and will mature on 27 February 2028.

European Commission investigation

The European Commission, by notification received by the French authorities on 2 March 2020, initiated a State aid investigation into the mechanism for regulating natural gas storage activities in France. At this stage, TERÉGA has no visibility over the duration or potential impacts of this survey on the economic model of storage activity in France.

COVID 19

The entity's financial statements have been prepared on a going concern basis. Activities began to be affected by COVID-19 in the first quarter of 2020 and the entity expects a limited impact on its financial statements in 2020. However, given the recent nature of the epidemic and the measures announced by the government to help businesses, the company is not able to assess the potential impact in figures. On the date the 2019 financial statements were approved by the board of directors, the entity's management is not aware of significant uncertainties that would call into question the entity's ability to continue operating.

40, avenue de l'Europe · CS 20522 · 64010 Pau Cedex
8, rue de l'Hôtel de Ville · 92200 Neuilly-sur-Seine
Tél. +33 (0)5 59 13 34 00 · @Teregacontact · **www.terega.fr**