Galp Gás Natural Distribuição, S.A.

Management Report and Consolidated and Separate Accounts

2021

Head office: Rua Tomás da Fonseca Torre C, 1600-209 Lisbon

Share Capital: €89 529 141.00

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1. MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND MESSAGE FROM THE CHAIRMAN OF THE EXECUTIVE COMMITTEE

Message from the Chairman of the Board

Dear stakeholders,

The last few years have been marked by profound changes in our lifestyle. The widespread awareness of climate change and the need to act objectively to reduce carbon emissions puts the energy sector in an absolutely crucial position. The energy transition increases the challenges we have to respond to and encourages companies like ours to strengthen their ability to innovate, create and deliver solutions that are compatible with current demands – lower environmental impact, greener energies, more developed infrastructures, greater engagement with the different stakeholders.

In addition to this external environment, GGND experienced an internal organizational change in 2021, with Allianz Capital Partners becoming its controlling shareholder. The entry of this new shareholder, in partnership with Meet (Marubeni & Toho Gas) constitutes a moment of transformation, not only because new investors lead to a new perception of the business and the growth opportunities that open up, but especially because ACP's profile as a buy and hold investor, that is, one with a long-term perspective in relation to the businesses it acquires, encourages a deeper reflection on the present and the future that awaits us.

As such, this is a unique moment and a rare context in the life of the organisation for everyone – the employees who have been at GGND for a long time, those who have recently joined, the extended management team and also the shareholders. It is up to us not only to define the new path, but also to reshape the company in its identity, how it affirms itself, how it distinguishes itself and how it is perceived by everyone around us. Being able to add the contribution of newcomers to the experience accrued over the years by so many people, with complementary perspectives and the ambition of the new shareholders, who have made the distribution of natural gas and new energies a priority in their activity, is an opportunity that we must all acknowledge and embrace.

For my part, and on behalf of the Board of Directors, I could not be more committed and enthusiastic to follow closely this movement towards transformation and the future.

Diogo da Silveira
Chairman of the Board of Directors of GGND

Message from the Chairman of the Executive Committee

In a process of intense transformation.

2021 was the year in which GGND began the process of the greatest transformation in its recent history, with the simultaneous acceleration of the energy sector transition and in particular the gas sector, by increasing the development of renewable gases.

Several events that occurred in 2021 affected our Company significantly, including the following:

- the entry of Allianz Capital Partners as a new majority shareholder;
- the reorganization initiated with a new management structure to enable the Company to become autonomous, with the ambition to grow;
- the public presentation of the first project for the injection of hydrogen into the gas network in Portugal;
- the expansion to new municipalities where the gas network will offer more families and companies the perks of using an energy that already contributes to reducing emissions.

In 2021, in the context of contributing to decarbonisation targets, GGND approved:

- the plan to reduce emissions (scope 1 and 2) by 25% by 2025 and
- the goal of promoting and ensuring the decarbonisation of the gas distribution infrastructure by 2050, reinforcing the Company's commitment to contribute to the continued well-being of the communities where we operate.

Lastly, a special mention to the projects that we initiated in 2021, which require the active participation of all those who work daily in this organisation, so that we can define and enforce the essential pillars of our Company: Who we are, How we are and Why we exist.

I am referring to the projects to identify the Culture of our organisation, to define our Values and our Purpose, as well as our new Brand.

It is on the basis of these seeds sown in 2021 that we look to 2022 with an even greater ambition.

The commitment to decarbonisation, the development of renewable gases and their injection into the gas distribution network will be increasingly important. Portugal has a considerable advantage when compared with other countries, due to the fact that it has a recent gas network that is very well suited to respond to these challenges.

2022 will be the year in which we will present our reshaped Company, based on the ambition to strengthen our contribution to the decarbonisation of Society, aligned with the will to expand to regions and markets that cannot yet benefit from our infrastructures and services.

The transformation process that is underway in our organisation is an opportunity for the development of all our employees and will also contribute to allow the communities where we operate to continue to benefit from the best services that we have always provided, enhanced by the strengthening of our skills and the increasing development of partnerships that will help us to accelerate the construction of a better and more sustainable future.

This transformation is also reflected in the way we communicate and this report is already an example of that change, as it includes, for the first time, information on the Group's main Sustainability indicators, reflecting our desire for greater transparency towards all our stakeholders.

The emission reduction challenges we all face are not compatible with a single solution and technology and must be achievable by everyone. For this reason, it is vital to ensure the development and application of the various technologies and solutions that can contribute to this goal. It is up to us to assume an increasingly active and collaborative role to make a positive impact on the various regions and communities.

Gabriel Sousa
Chairman of the Executive Committee of GGND

2. WHO WE ARE

The Group **Galp Gás Natural Distribuição, S.A. (GGND)** is the largest operator of the gas distribution network in Portugal, with a network of more than 13 thousand km and a presence in 102 municipalities across the country, through its stake in nine gas distribution companies. Five of these distributors operate under public service concession contracts signed with the Portuguese state in 2008, with a 40-year duration, while the others operate under licences with a 20-year duration.

Through its controlled companies, the GGND Group is responsible for the management of the medium and low-pressure gas distribution network, in a public service regime and under the terms defined by the concession contracts or license, by sector-specific legislation and by the Energy Services Regulator (ERSE).

The Group companies' distribution operations are responsible for supplying more than one million connection points and for the distribution of 18.1 TWh of natural gas per year.

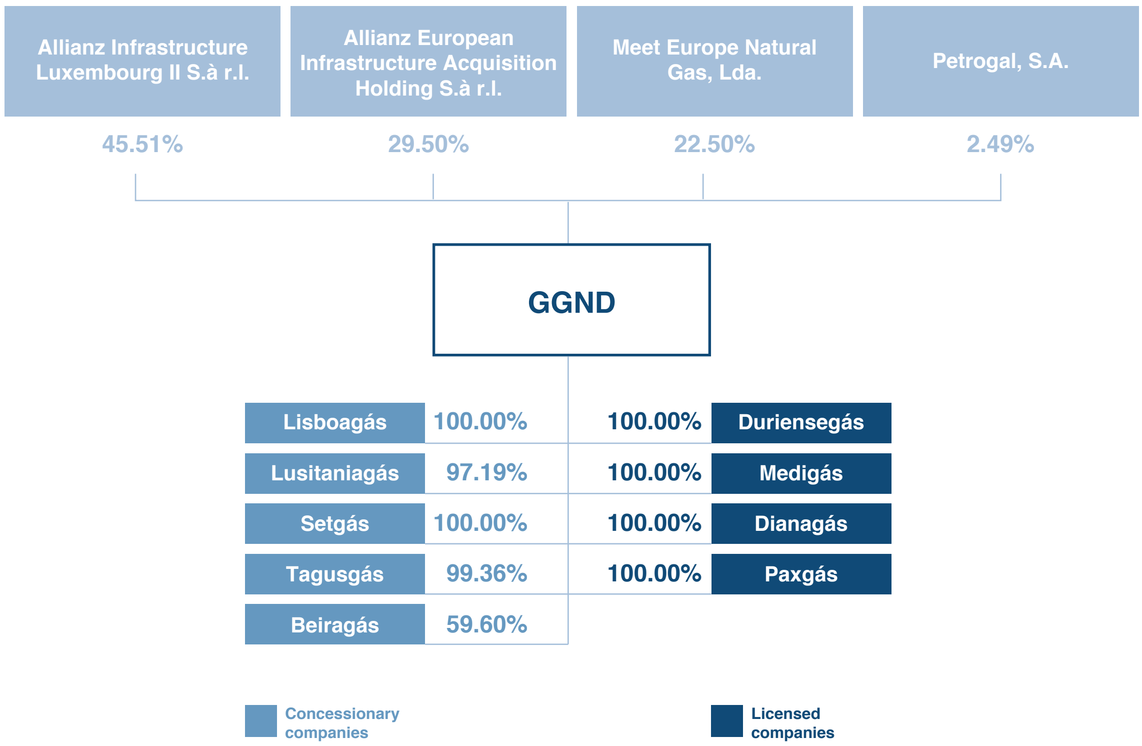
With 94% of its network mostly in polyethylene and with an average age of less than 16 years, GGND group has one of the most modern and efficient infrastructures in Europe, which allows it to ensure a completely safe supply and a quality service, complying with all the criteria established by ERSE and sector-specific legislation. GGND group is also at the forefront in the distribution of renewable gases, as the polyethylene network allows the transport of hydrogen (mixed or pure) and non-fossil gases such as biomethane.

GGND is undergoing a transformation process, asserting itself as a relevant player in the transition to a low carbon economy. Its aim is to grow and create value in a sustainable manner and thus contribute to the common good.

On the day the photo was taken, two of the Administrators were absent - Jaroslava Korpanec and Ippei Kojima.

3. SHAREHOLDER STRUCTURE

GGND's shareholder structure underwent a significant change in March 2021 with the entry of Allianz Capital Partners, which now holds a qualified shareholding of 75.01%. This stake resulted from the execution of the share purchase agreement signed on 26 October 2020 between Galp Energia, SGPS, S.A., through its subsidiary Galp New Energies, S.A., and Allianz Infrastructure Luxembourg II S.A RL. and Allianz European Infrastructure Acquisition Holding S. A RL. The remaining share capital of GGND is held by Meet Europe Natural Gas, Lda. (consortium formed by the Japanese companies Marubeni Corporation and Toho Gas Co.Ltd.) and Petrogal, S.A. (Galp group), with 22.50% and 2.49%, respectively.



4. MAIN INDICATORS OF 2021

4.1 GGND's concession and licensing area

	Lusitaniagás	Lisboagás	Setgás	Dianagás	Medigás
Network extension (km):	3 583	4 722	2 282	198	296
Connection points:	239 227	537 190	176 556	10 535	24 898
Gas distributed (GWh):	9 041	4 536	1 853	91	103

	Duriensegás	Beiragás	Tagusgás	Paxgás
Network extension (km):	498	872	979	66
Connection points:	32 198	57 911	41 430	6 214
Gas distributed (GWh):	234	951	1 246	18

4.2 Key performance indicators in 2021

13 498
Network Km

18 073
GWh distributed

1 126 159
Connection points

€608 m
In net debt

€33 m
In CAPEX

€33 m
In free cash flow

€99 m
In EBITDA

€16 m
In net income

€143 m [1]
In allowed revenue

1.9 GWh
of purchased electricity

16 202 tCO_2
issued from scope 1 and 2

2 800 m^3
of water captured

€23 m
Personal costs

398
Employees

1
Work acident

31%
Are women

3 685
Training hours

46%
Of workers in the age group between 30 to 50 years

(1) Includes s-2 adjustment published by ERSE in 2021

Operational indicators

	Unit	2021	2020	Var. YoY	%Var. YoY
Connection points	#	1 126 159	1 117 122	9 037	0.8%
Gas volume distributed	GWh	18 073	17 343	730	4.2%
Total network extension	km	13 498	13 323	175	1.3%
20bar network	km	790	790	0	0.0%
4bar network	km	12 708	12 533	175	1.4%
Service lines	#	358 477	352 146	6 331	1.8%
Employees	#	398	382	16	4.2%

Financial indicators

thousands of €	2021	2020	Var. YoY	%Var. YoY
EBITDA	98 503	94 227	4 276	4.5%
EBIT	47 881	44 464	3 417	7.7%
Net income	15 555	13 913	1 642	11.8%
Free cash flow [1]	32 880	49 766	(16 886)	(33.9%)
Net debt [2]	607 528	598 527	9 000	1.5%
Net fixed assets [3]	1 134 733	1 151 169	(16 436)	(1.4%)
CAPEX	33 232	25 837	7 395	28.6%

[1] Cash flows from operating activities - Cash flows from investment activities
[2] Bank debt + Bond loans - Cash and equivalents
[3] Tangible assets + Intangible assets (excluding Goodwill)

Social indicators

	2021	2020	Var. YoY	%Var. YoY
Employees number	398	382	16	4.2%
Gender				
Men	274	261	13	5.0%
Women	124	121	3	2.5%
Age group				
< 30	9	7	2	28.6%
30-50	183	199	-16	(8.0%)
> 50	206	176	30	17.0%
Health and safety				
Cases of occupational diseases	0.00	0.00	0.00	-
Lost Time Injury Frequency (LTIF) [1]	2.74	2.73	0.01	0.4%
Lost Time Injury Severity rate (LTIS) [2]	0.07	0.06	0.01	16.7%

[1] LTIF *Lost Time Injury Frequency* - (N. of fatalities + lost workday cases) * 10^6 / hours worked
[2] LTIS *Lost Time Injury Severity rate* - N. of working days lost by C3 accident *1000 / hours worked

Note: The amounts presented in this management report are in thousands of Euros, rounded to the nearest thousand unless otherwise stated. In this way, the subtotals and totals of the tables presented may not be equal to the sum of the values shown, due to rounding.

5. THE NEW GGND APPROACH

5.1 Global context

As a result of the consensual need to decarbonise the economy, the energy sector is in full transition. Over the coming decades, the energy transition will play a key role in delivering energy in a constantly growing society, while aiming to reduce greenhouse gas (GHG) emissions.

As such, companies need to define their path to decarbonisation, becoming more competitive and taking on sustainability as a criterion in investment decision-making, in alignment with society, protecting the planet and improving the quality of life.

In this context, GGND continues to develop a set of initiatives to accelerate the introduction of renewable gases in the gas distribution networks and to consolidate the whole process that will enable it to reach, in the networks where it operates, the injection targets for these renewable gases defined in the National Energy and Climate Plan (PNEC) 2030.

International commitments

Simultaneously, the 2030 Paris Agreement targets set by the United Nations Framework Convention on Climate Change (UNFCCC), and the fulfilment of the 17 Sustainable Development Goals (SDGs), serve as guidelines for defining a sustainable business strategy. This alignment will allow GGND to act with regards to the SDGs, particularly focusing on those in which it has a greater impact and contribution, in order to respond to these challenges and leave its mark on the progress towards a sustainable future. Although a deeper analysis of its impact on the SDGs is required, GGND is guided by the SDG Roadmap for the sector, by the World Business Council for Sustainable Development (WBCSD), as well as the SDGs associated with the commitments of Gas Distributors for Sustainability (GD4S), an association which GGND belongs to.

It should also be noted that GGND is an associate member of the Business Council for Sustainable Development (BCSD) Portugal, which is part of the global network of the WBCSD. BCSD Portugal aggregates companies with a vision for the future, working together to accelerate the transition to a more sustainable world. In this context, GGND has also signed the BCSD Charter of Principles, which encourages signatories to go beyond legal compliance, adopting standards and practices in line with the highest management, ethical, social, environment and quality standards, in any context of the global economy.

The GD4S Sustainability Charter

GGND participates in various international forums that monitor and promote the decarbonisation of the natural gas sector, including GD4S – Gas Distributors for Sustainability.

GD4S encompasses the leading Distributor System Operators (DSO) of seven European countries, serving 27.7 million customers (about 30% of the European market) and promotes within European institutions the potential of natural gas networks as enablers in the process towards carbon neutrality, through the injection of renewable gases into the network.

As a member of GD4S, GGND has signed and subscribed to this organisation's first Sustainability Charter, which defines a collective approach to sustainability, entitled *"Decarbonisation of the gas network as a key element of a climate neutral society"*, defining commitments between the three pillars of sustainability – Environmental, Social and Governance (ESG) –, all of which are aligned with the United Nations Sustainable Development Goals, and contribute to the European goal of carbon neutrality by 2050.

Following consultations with a wide range of stakeholders to ensure the delivery of a robust set of commitments, GGND is engaged to assessing and reporting the progress attained and plans to publish its first report in 2023, according to a defined timetable.

Charter commitments

Environmental commitments	**1.** Reduce greenhouse gas and methane emissions in its operations and improve energy efficiency
	2. Contribute to the development and distribution of renewable energy sources in its networks
	3. Preserve resources and protect biodiversity
Social commitments	**4.** Promote a corporate culture that fosters equal and fair treatment of its employees, promoting their continuous development in a safe workplace
	5. Provide a quality service and a secure gas supply that meets the needs of its customers
	6. Strive to have a positive impact on society in the locations where it operates
Governance commitments	**7.** Promote fair and transparent practices and prevent corruption
	8. Disclose its performance in a transparent way
	9. Step up the dialogue with stakeholders

As a founding member of GD4S and a leading gas distribution company in Portugal, the Sustainability Charter is another important step for GGND in its journey towards sustainable growth, reflecting its commitment to being a key player in the energy transition in Portugal and in the European Union.

5.2 The transformation at GGND

I. New shareholders

As of March 2021, GGND has a new majority shareholder, Allianz Capital Partners (ACP), with a 75.01% stake. ACP is part of the Allianz group and is a long-term investor with around €46.6 billion of assets under management, of which €18.6 billion is allocated to infrastructure. With a large portfolio of investments in energy networks in Europe, the stake in GGND represented ACP's first direct investment in infrastructure in Portugal.

The stable regulatory framework of the energy sector in Portugal and the critical role of GGND in the Portuguese decarbonisation plan were key factors for ACP to complete this investment.

Aligned with the other shareholders (Meet and Galp), the major objectives of the new shareholder structure for GGND include:

- positioning GGND as a benchmark player in the energy transition in Portugal;
- promoting the growth of the gas market supplied by the distribution network infrastructure and accelerate its decarbonisation process;
- managing the gradual transition of the Company into an autonomous entity;
- maintaining an "investment grade" policy.

II. New identity and mindset – transformation projects

The new shareholder structure represented a turning point for the Company, which began a process of transformation and autonomy in relation to the previous majority shareholder.

The construction of a new identity, reflecting the current Company and its enormous challenges, was a priority for the management team from the very first moment.

A company-wide corporate culture project was launched, with the aim of defining the Purpose, Mission, Values and Behaviours of the new organisation. This project, consisting of three distinct phases, involved everyone in the Company in a collaborative process of reflection and appropriation of the new identity.

- **Getting to know the organisation.** Through listening sessions that included in-depth interviews with the management team, workshops for middle management and a climate survey aimed at all employees, which had a participation rate of 88%. The results of this study were presented to the entire Company, by the CEO and the Head of People Management.
- **Definition of the identity pillars.** Based on the information gathered, the Executive Committee began a process of strategic reflection to define the Purpose, Mission and Values of the new organisation. The final formulation of these principles resulted from an interactive process between the Executive Committee and the wider management team, reflecting a shared vision of the underlying principles of the Company.
- **Organisation alignment.** Clearly communicating the new Purpose, Values and Mission to the whole organisation is fundamental for people to embrace and be aligned with the new culture. During two weeks in 2022, all employees participated in a face-to-face session where the Purpose, Mission and Values were presented to them, and they were challenged to transform each of the shared principles into individual and corporate behaviour.

Involving everyone in this moment of transformation is a unique opportunity to strengthen the sense of belonging of current employees and to inspire future ones.

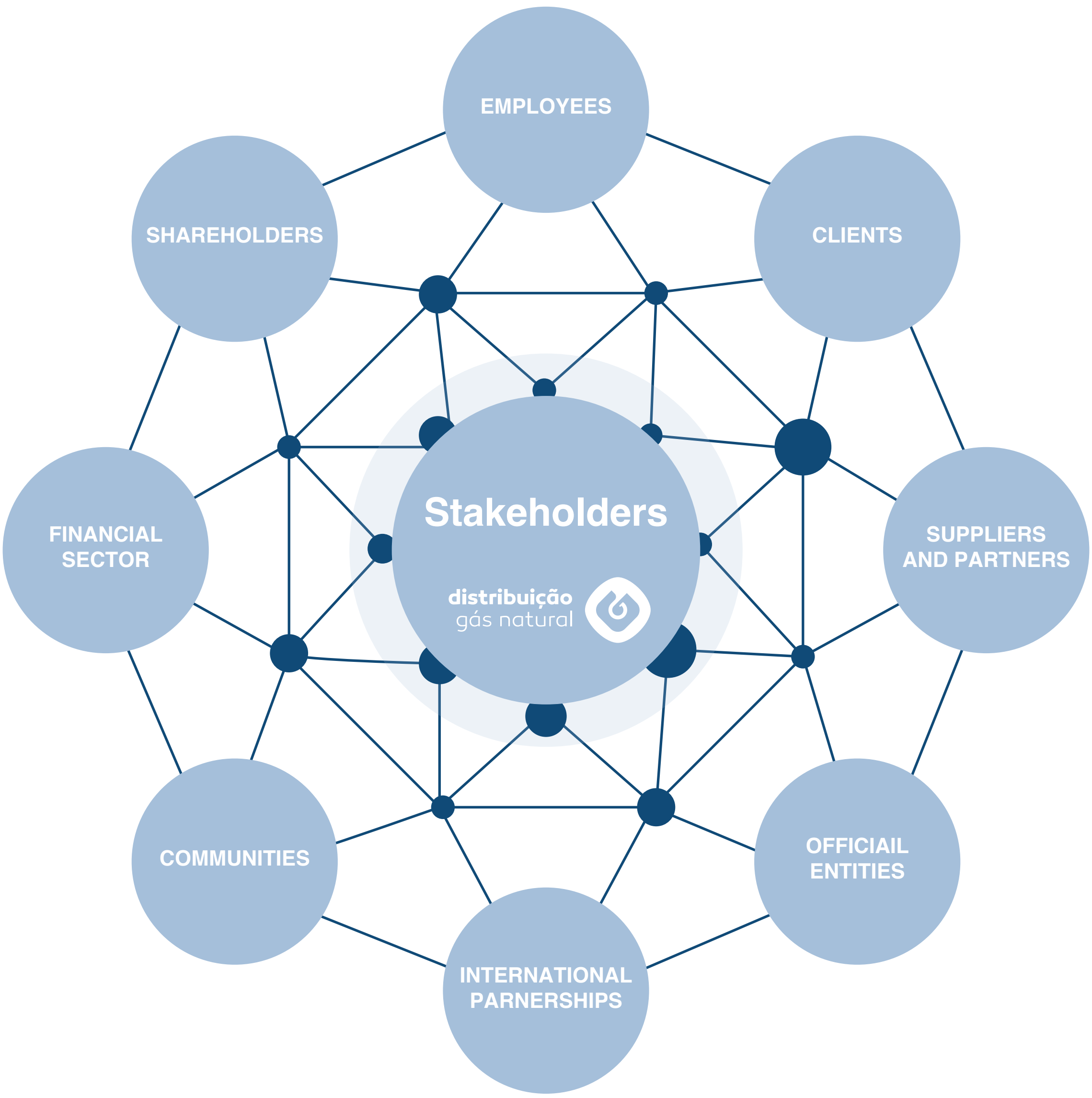
Also at the end of 2021, the project to create GGND's new brand was launched with a conclusion expected during the first half of 2022.

Within the scope of this transformation process and to guarantee its autonomy from the previous shareholder, the Company reinforced its organisational structure with the creation of the following departments: People Management, Regulation, Information Systems, Transformation Management, Investor Relations and Social Responsibility, Environment and Governance and Marketing and Communication. GGND is building the necessary structure to develop its operations in a sustained manner, as well as to reorganize, optimize and digitalize processes; technological transformation stands out as another key aspect to provide the company adequate means to pursue its goals and developments.

5.3 Our stakeholders

GGND will develop a new stakeholder group analysis in 2022. This is a dynamic process that seeks to map, prioritise and integrate their ideas and concerns in the Group's decision making. This stakeholder dialogue will provide opportunities for learning, stimulating shared value, promoting proximity and trust, and will enable the Group to be continuously aware of and alert to all opportunities for partnership with its stakeholders.

As a starting point, GGND has already identified a set of stakeholders, namely internal – employees and shareholders – as well as a range of external stakeholders – clients (including suppliers/retailers and end customers), suppliers (including partners and service providers), official entities (including regulators and public administration), financial sector (including bond holders), international partnerships and communities where its subsidiaries operate.



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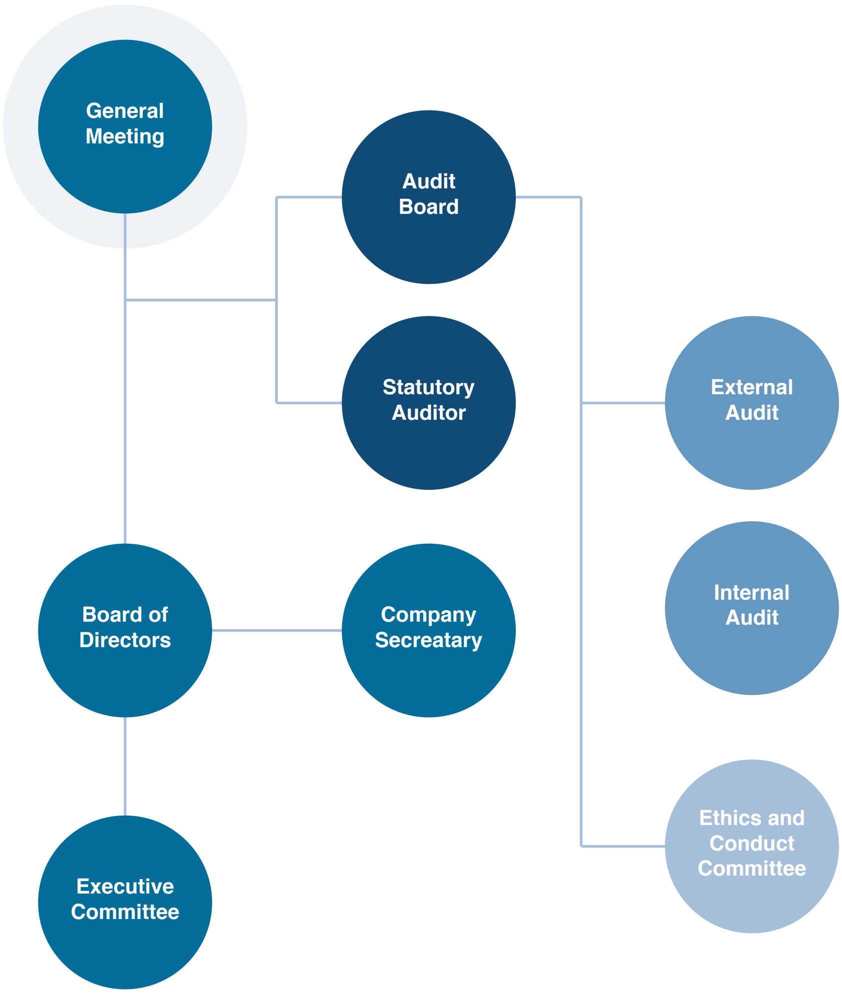
6. THE GOVERNANCE OF GGND

6.1 Governance Model

GGND adopts the classic unitary corporate governance model consisting of:

- General Meeting, which brings together the company's shareholders;
- Administration, comprised of a Board of Directors and an Executive Committee with delegated powers;
- Supervision, which includes aa Audit Board and a Statutory Auditor; and
- Company Secretary, in charge of providing specialised support to the governing bodies.

The company also includes an Ethics and Conduct Committee.



6.2 Integration of Sustainability in our organisation

In the new GGND structure, and as mentioned above, the overall management of ESG issues is the responsibility of the Investor Relations and Environmental, Social Responsibility and Governance Department. This Department, which reports to the Chairman of the Executive Committee, is responsible for promoting the Company's sustainability, best practices in corporate management and disclosure, through an integrated approach to environmental, social responsibility and governance, focused on the protection and creation of sustainable value for all stakeholders.

At a more operational level, all the other departments are aligned and committed to the implementation of best practices, ensuring the best performance of the organisation in the economic, environmental, social responsibility and governance areas.

6.3 Mission and Values

The mission and values are the guidelines for the way we work. In its ongoing transformation process, GGND has been working on the redefinition of these concepts so that they truly reflect its responsible action, in line with the strategy presented in chapter 5.2.

This revision has triggered an evolution from the Mission and Values previously adopted and known in 2021:

Mission	Values
Our mission is to create for clients, GGND people, shareholders and investors, operating in the energy market with ambition, innovation and security, promoting respect for the principles of ethics and sustainability.	Trust Innovation Partnership Agility and Sustainability

The new drafting of these concepts was concluded already in 2022 and shared with all of GGND´s employees, who were actively engaged in this process, and will be announced to all external stakeholders alongside the launching of the new brand.

6.4 Responsible business conduct

GGND's responsible business conduct is governed by a set of regulations and codes, which guide the personal and professional conduct of all employees and applies to all those who provide us with services. These documents reflect GGND's commitment to ethics, integrity and compliance in its day-to-day operations and throughout its value chain, as well as the commitment to corporate responsibility towards society, safeguarding human rights, protecting the environment and investing in research and technology as a way of contributing to the common good. Along the same lines, the Distribution System Operators (DSOs) also possess their own codes of conduct, in addition to subscribing to GGND's Code of Ethics and Conduct. These codes of conduct establish principles and conduct norms for managers and all DSO´s employees, reinforcing the absolute respect for independence and transparency rules during the course of their activities, as well as the absence of discriminatory behaviour.

The Code of Ethics and Conduct is a guide for the Company actions, as well as those of its people and business partners, bearing in mind the applicable rules and previous experience of the Group, adapting its treatment to the new contexts and challenges arising from business expansion and development.

The Code of Ethics and Conduct and other regulations can be consulted on the GGND website, in the **Mission, Vision and Ethics** tab.

GGND also presents a Whistleblowing Procedure with the objective of allowing any stakeholder to communicate to the Audit Board, through the Ethics and Conduct Committee, irregularities or situations of non-compliance within the Code of Ethics and Conduct, through a specific channel that ensures a level of security and confidentiality of the information reported. The GGND Ethics and Conduct Committee is responsible for monitoring the application and interpretation of the GGND Code of Ethics and Conduct, as well as for receiving, recording and processing reports of irregularities received on the dedicated ethics line (opentalk@ggnd.pt).

6.5 Internal control and risk management systems

6.5.1 Internal control system

The internal control system, embodied in an Internal Control Manual whose revision began in 2021, adopts the five components of internal control that act and operate in an integrated and independent manner: 1. Control environment; 2. Risk assessment; 3. Control activities; 4. Information and Communication; 5. Monitoring activities. These components aim to provide reasonable assurance on the achievement of GGND's objectives in relation to:

- the pursuit of its strategic goals;
- the conduct of activities in an orderly and efficient manner;
- the safeguard and protection of assets;
- the prevention and detection of fraud and errors;
- compliance with the law and applicable regulations; and
- financial and non-financial reporting.

It should be noted that the strictly regulated framework in which the GGND subsidiaries operate led to the establishment of a Compliance Programme. In accordance with the applicable regulations, an independent entity was appointed to ensure the existence of a Compliance Officer in the three distribution companies with more than 100 thousand customers. This entity monitors the proper enforcement of the principles laid down in the programme and the compliance of the companies' actions with the established obligations.

The definition or revision of GGND's objectives is the triggering factor for the risk assessment process. A timely identification of the goals and consequent identification and analysis of the risks associated with the achievement of the main goals allows GGND to identify potential events that may affect the pursuit of those goals.

To ensure an effective internal control system, GGND promotes the exchange of relevant information, maintaining permanent communication with the various stakeholders, both internal and external.

Finally, the Company carries out operational, compliance and financial audits, as well as reviews of the information systems, in order to test the effectiveness of the existing internal control mechanisms, ensuring appropriate conditions for maintaining a process of continuous improvement.

6.5.2 Reporting of financial information

GGND managing bodies oversee and monitor financial results on a monthly basis. The mandatory financial information disclosed and published includes the annual and half-year accounts. The Board of Directors approves the annual and half-year reports & accounts after being reviewed by the Audit Board and audited by the Statutory Auditor.

Within the scope of his duties, the Statutory Auditor also evaluates the internal control mechanisms of the main functional cycles of GGND and its Subsidiary Companies with effects on the financial reporting.

6.5.3 Risk Management Model

As a holding of a group of regulated Companies operating in a geographically dispersed manner in the gas distribution and commercial sector in Portugal, the existence of a robust internal regulatory framework and a disciplined approach to risk are important elements at GGND. This regulatory framework ensures that the activity is carried out in accordance with strategic goals, that accepted risks are properly mitigated and that long-term value is created for stakeholders.

The day-to-day management of the Company is carried out by the Executive Committee under the terms of the delegation of powers conferred by the Board of Directors, which supervises and monitors management, through its non-executive members.

The Audit Board is responsible for supervising the effectiveness of the risk management, internal control and internal audit systems, and proposing the necessary adjustments, as well as annually evaluating their performance and the respective internal procedures and providing an opinion on the work plans and resources allocated to the internal control services.

The Board of Directors is responsible for approving the internal control policy and defining the risk management strategy and supervision that GGND is willing to accept, and for ensuring the alignment of the strategy with that level of risk, monitoring and controlling the performance of the duties delegated to the Executive Committee.

The Executive Committee is responsible for monitoring risk management with a focus on the main risks to which GGND is exposed, including strategic, operational, financial and regulatory risks.

GGND is enhancing its procedures for risk analysis and management, as well as internal control, considering its specific area of operation (gas distribution and supply), as well as the legislative and regulatory framework in which it operates.

6.5.4 Main risks

GGND has identified the following risks as a priority:

- Regulatory uncertainties and compliance;
- Information systems failures and cybersecurity;
- Project execution, namely in terms of resources and processes autonomy.

GGND's key risks and uncertainties are managed, monitored and communicated according to the counterparty, project or geographic level, as appropriate.

The response strategies to specific situations are defined so as to ensure that the risks are within the general guidelines acceptable to GGND and its subsidiaries.

By subscribing to the insurance policies deemed necessary, GGND and its subsidiaries guarantee the coverage of the identified risks, aimed at transferring the risk and minimising potential reputation, operational and financial damages.

GGND's operations are long-term in nature, which implies that many of the risks to which it is exposed are permanent. However, the risk triggers, whether internal or external, are changeable and can develop and evolve over time, and vary in probability, severity and detectability.

6.6 Management systems

GGND guaranteed the conditions for maintaining certification of the Environment, Quality and Safety and Health management system implemented in all the Group's Companies, continuing to demonstrate knowledge and understanding of the requirements applicable to its services, including legal requirements, as well as its own requirements and those of its stakeholders and clients.

The GGND distribution network operators have implemented Environment, Quality and Occupational Health and Safety management systems certified by APCER for NP EN ISO 9001, NP EN ISO 14001 and ISO 45001, thus contributing to the sustainability of the gas distribution activity and demonstrating our commitment to:

- the environment
- the consumer's satisfaction
- the safety of our employees

You can read these documents on the GGND website, in the **Certifications** tab.

7. ESG PERFORMANCE

7.1 People

For GGND, human capital is a priority, representing its greatest intangible asset. The Group aims to differentiate itself in people management and promotes efforts to ensure the growth and well-being of all its employees. With the recent reorganisation, GGND intends to reinforce the obvious importance and the need for tools to manage and value its people, by including initiatives and commitments in its agenda.

7.1.1 Diversity and Inclusion

The Company works to ensure that its basic values are present in its daily activities, throughout the Group, based on ethics and integrity as a way of being and living together, with a transparent public posture and honest dealings with employees, investors and customers. These values define our way of being and are imperative to the Group before any result.

Our commitments

GGND will promote the Diagnosis of Diversity, Equity and Inclusion (DE&I), in order to identify the areas for improvement on this matter and identify priorities for action. GGND undertakes not to discriminate against its people or any other person on the basis of race, religion, gender, sexual orientation, ancestry, age, language, place of origin, political or ideological beliefs, economic situation, social background or contractual relationship.

The Group promotes policies and measures aimed at preventing discriminatory actions, including the strengthening of gender diversity in the organisation.

On the other hand, it commits to incorporate DE&I indicators in the internship recruitment programmes.

7.1.2 Training and people development

Given that its employees are one of the most relevant assets for GGND, with a total number of 398, their development and growth within the Group companies is a priority, with investment in training and qualification serving as tools to prepare them for current and future business needs.

Taking into account the Company’s current moment, where it is co-creating targets, activities, a mission and values, and a tangible purpose, it is fundamental to have initiatives in place to develop and consolidate a common space for the key members of the organisation to share and grow. Training is one of the key pieces to make this happen.

Initiatives

Skill development

Employees invested a lot of hours in the training session "Maintenance and Updating of Gas Technician skills".

These skills are crucial for maintaining the levels of quality and reliability in the performance of our activity.

Safety training

Employee safety is one of the fundamental pillars of the organisation. Safety training records the highest number of hours dedicated, highlighting the following actions:

- Fire fighting in Autonomous Gas Units (AGUs)
- Emergency organisation
- Safety system for major accident prevention
- Defensive driving

Global technical skills training

There is also a strong training component in broad technical skills, such as English, Excel, and productivity tools such as Microsoft Power platform, among others.

Our commitments

The development of people within GGND's organisation should respond to their challenges and expectations, as well as the Company's and society's.

The commitment undertaken is in the design and operationalisation of processes and tools that enable an integrated and standardised response between the various existing perspectives.

There is also a plan to have a training cycle that is aligned with the academic cycles, so that the results of the diagnostic tools and the materialisation of the identified needs do not have a significant time gap.

7.1.3 Involving our workers

At GGND, everyone has an important role to play within the company and employee engagement in certain activities and decisions is a fundamental way to promote motivation, trust and team spirit.

Thus, and in the context of the pandemic, GGND developed the following initiatives:

Digital meeting

Following the acquisition of the majority shareholding by Allianz Capital Partners, a digital meeting was held at the end of April 2021 with all employees to present the new shareholders, the new management bodies and the strategic guidelines for the development of the business.

Culture and organisational environment survey

During the month of November 2021, all employees were asked to take part in a survey on Culture and Organisational Environment, in order to assess their degree of satisfaction with the Company and the most relevant aspects to be worked on. The survey had a participation rate of 88%, which provided a very broad view of workers' opinions.

Christmas gathering

In December 2021, as part of the Christmas celebration, a hybrid event was held, which brought all employees together, with the objective of disclosing the results of the previously mentioned survey, as well as providing an update on the Company's results and the strategic projects underway.

Our commitments

Culture

The involvement of the entire Company's population in the definition and materialisation of the Company's Purpose, Values and Mission will continue. The aim is to involve everyone and achieve a joint perspective on the identity pillars of the organisation.

Brand

In the rebranding process, the goal is to involve several areas across the organization, with their participation in workshops so that the new brand is built and felt by all.

Employee

A project will be developed to map employee experience and adjust the various points of contact between the employee and the Company, and to be able to redesign the various people management processes with the participation of all employees.

7.1.4 Safety, Health and Well-Being

The concern and care for internal as well as external employees is a priority for GGND, through a culture focused on the employees' safety, health and well-being.

With the pandemic, a set of rules and measures were reinforced in order to prevent the risk of contamination and protect employees and stakeholders, allowing for our activities to pursue in a safely manner. In that context, the following initiatives were carried out in 2020/2021:

Safety Talks

Strengthening the safety culture in the Group's companies is a priority for GGND, and that is why 2021 saw the resumption of the "Safety Talks" programme. "Safety Talks" is based on a positive safety culture and implies dialogue between managers and employees, based on observation during work execution, focusing on the behaviour and the conditions under which tasks are carried out. The main goal of this programme, in which directors and managers also participate, is to identify unsafe acts and unsafe conditions, and immediately correct them, as well as to ensure company-wide safety communication.

Worker participation

GGND promotes various channels for employee consultation, some more formal, such as the survey to all employees on key safety issues, others less formal, such as moments of interaction and sharing. These moments can happen between team managers or in certain situations, such as control and monitoring activities, which are used to identify improvements in OSH conditions.

At the same time, and to encourage a positive safety culture, some mechanisms were created for recognition and constructive feedback, in order to encourage a safe attitude and behaviour. This incentive is complemented by the reinforcement of the communication component of relevant security issues.

Wellness and mental health programme

Due to the pandemic and consequent confinement, GGND established a set of initiatives to promote health and well-being. Those include meditation classes and physical exercise, particularly in terms of ergonomics (with ergocoaching).

To keep its employees in touch with the Company and their colleagues, and to foster healthy productivity while teleworking, GGND started a programme of online training sessions, including:

- 5 Ways To Become Happier Today
- How to Prevent a Burnout at Work
- Self-care and Well-being
- How to Build Your Mental Strength

New medical Centre and other initiatives

In 2021, the new medical centre was inaugurated in Lisbon.

To promote well-being and mental health, nutrition and psychological appointment were made available to employees. The company also acquired and delivered personal protection equipment to employees.

A pilot project was also developed to acquire tools to support and minimise physical effort in surveying equipment for Gas Infrastructure Technicians (GITs).

7.2 Planet

One of the biggest challenges of modern times is the scarcity of natural resources. In recent decades, the intensive consumption of resources has been the basis of the world economic system, and if this paradigm does not change, our future will be affected and the well-being of the population and the way of life as we know it will be compromised.

With companies playing a crucial role in resource consumption and its associated impacts, but also in setting-up group cultures and behaviours, they have a key responsibility. GGND is setting targets and efforts to adapt its activities and align with the European strategy for the transition to a green economy, as well as other objectives.

7.2.1 Climate change and the energy transition

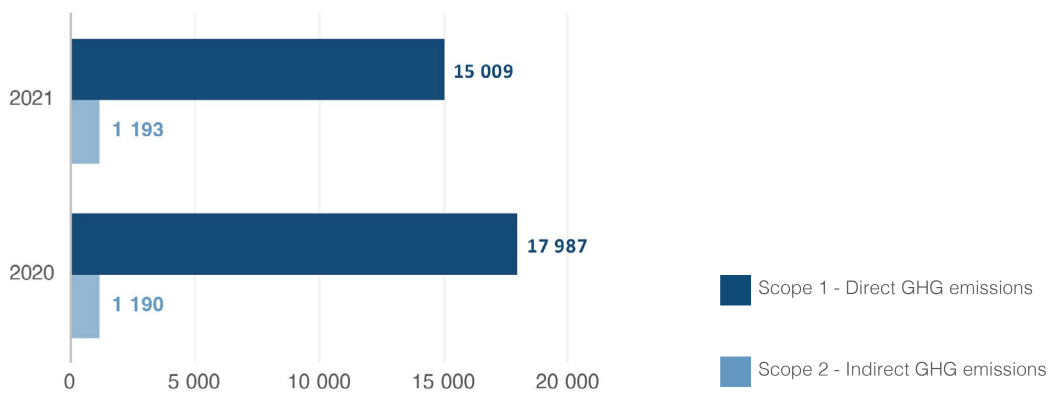
GGND places climate change at the heart of its priorities and has defined a plan for the reduction of greenhouse gases. The expansion of the gas network will provide greater availability of an energy source that already contributes to reducing emissions, as well as promoting the construction of decarbonised infrastructure in a wider extension of communities and municipalities.

It is important to remember that natural gas is considered a cleaner energy source when compared to other fossil fuels, since burning natural gas results in lower emissions of sulphur and nitrogen oxides (responsible for acid rain), as well as carbon dioxide, which causes the greenhouse effect.

Limiting the carbon footprint of energy-related activities is one of the main objectives of European gas distributors. The gas distribution industry plays its part in reducing methane emissions by reducing its own emissions, promoting energy efficiency and driving the development of renewable gases such as biomethane and hydrogen.

We are fully aware that the energy transition will require investments and behavioural changes. As DSOs, we will need to actively contribute to change by focusing on reducing methane emissions using the available technology.

GHG emissions (tCO_2)



A pioneering project, the Green Pipeline Project (GPP)

GGND leads the Green Pipeline Project (GPP) - a pioneering project in the injection of green hydrogen (H_2) in the natural gas network in Portugal, publicly launched in October 2021.

This pilot project is being developed in Seixal, in the distribution network of the Group's company - Setgás, with the direct participation of various institutional and technical partners, and relies on the local production of green hydrogen, which will be transported to the gas network, where it will be mixed with natural gas and distributed in a network that supplies around 80 customers in the residential, tertiary and industrial sectors. Previously, a technical visit will be made to each of these customers to ensure that all burner equipment meets the conditions to receive this type of gas mixture.

In addition, the project includes the construction of a new network segment, 1 400 metres long, with 100% of H_2, connecting the hydrogen production site to the injection and mixing point.

In an initial phase, hydrogen will be mixed with natural gas in a percentage of $2\%_{vol}$ increasing, over a period of two years, to a maximum of $20\%_{vol}$, avoiding with this percentage, the emission of 60.29 tonnes of CO_{2eq} per year, which is equivalent to the carbon sequestered by around 36,000 trees.

The GPP also aims to study the impact of H_2 injection on distribution infrastructure management and consumer burner equipment, bringing together know-how and skills so that DSOs can be properly prepared to respond to requests from interested parties and thus contribute to the National Plan for Hydrogen goal of incorporating between 10-15% hydrogen in natural gas networks by 2030.

See project here **https://www.greenpipeline.pt/**

Partnerships for the decarbonisation of the sector

GGND's role as DSO during the energy transition is to support the development of a grid that facilitates the capture, distribution, and storage of alternative and renewable energy sources through smart infrastructure.

In this respect, GGND has been a prominent member of several European associations, such as Eurogas, Gas Distributors for Sustainability (GD4S) and Marcogaz:

- **Eurogas** – association representing 66 companies in the European natural gas industry in the EU, promoting a robust and gradually more decarbonised European gas market;
- **GD4S** – brings together the 7 largest DSOs, committed to improving the sustainability of business operations, and collaborating towards a common effort for a future reliable, secure and sustainable gas grid;
- **Marcogaz** – Technical Association of the European Gas Industries, which has developed studies of the consequences of mixing gases with natural gas and of the appropriate mitigating measures to address them along the entire value chain of the industry.

Ready4H2

GGND has strengthened its commitment to the transition to decarbonisation by joining the Ready4H2 (Ready for Hydrogen) project.

The Ready4H2 study focuses on the distribution of pure hydrogen in the DSOs' infrastructures. Full decarbonisation of gas networks can only happen if the network distributes renewable and low-carbon gases (such as biomethane, hydrogen or a mixture of the two).

In this project, officially launched on October 20th 2021 and scheduled to last until the end of March 2022, GGND has committed to work with more than 90 European DSOs, bringing together their accumulated hydrogen knowledge and experience, and creating a common understanding of how gas distribution networks can help materialise the huge potential for growth in hydrogen uses and achieve the carbon reductions associated with this energy vector.

Technical support for the development of the renewable and low carbon gases market

GGND has contributed with technical knowledge regarding the renewable gases market, which the Group has been acquiring both at a national and, mostly, European/international level.

Design of the Hydrogen injection mixing station

Design and construction of a mixing station that allows the injection of hydrogen into the natural gas network, making it possible to automatically control the characteristics of the mixing gas (H_2 + NG) and thus allowing the correct billing of the gas distributed to customers. This station will enter into service with the Green Pipeline Project (mentioned above).

Also in terms of biomethane, GGND has specified a station to receive, analyse and control the injection of biomethane into the natural gas network.

Gas Quality Tracking System (GQTS)

In the technological context, GGND developed the Gas Quality Tracking System (GQTS), as a tool to determinate the calorific value of the gas, or mixture of gases, circulating in the network. In this way, it is guaranteed that the energy that is delivered to customers is correctly determined.

Our commitments

Gas Distributors GD4S For Sustainability

In 2021, GGND made an important step in its decarbonization commitment, approving the following internal targets:

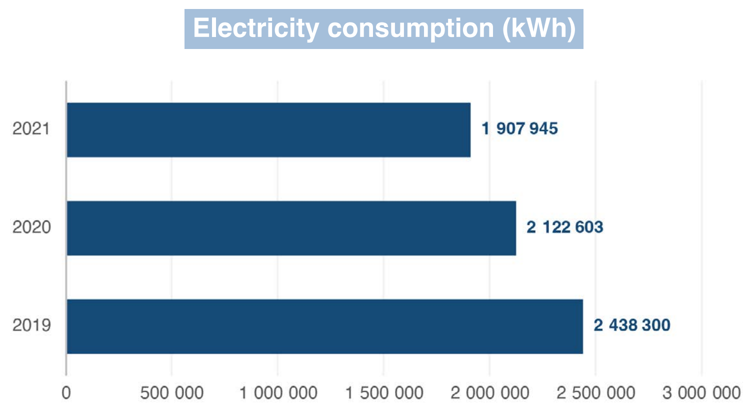
- A plan to reduce emissions (scope 1 and 2) by 25% by 2025, and
- the goal of promoting and ensuring the decarbonisation of the gas distribution infrastructure by 2050, reinforcing the Company's commitment to contribute to the continued well-being of the communities where it is present.

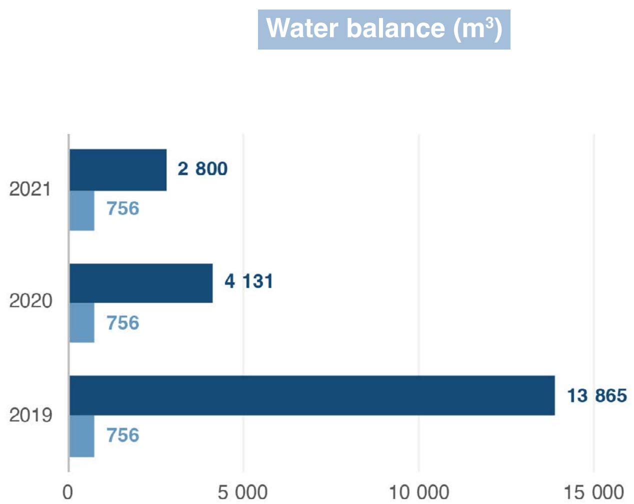
In parallel, as presented in chapter 5.1, GGND subscribed and signed the GD4S Sustainability Charter, in a collective alignment with its members around the three main sustainability pillars of ESG.

7.2.2 Sustainable resource management

In the face of the current climate and environmental crisis and growing inequality, companies like GGND have a responsibility to act on their impacts and use of natural resources, including developing responsibility and legislation extended to the value chain, supporting technical innovation to improve resource circularity and even drawing on alternative resources.

Although the Group's activity does not represent a significant consumption of natural resources, the Company develops energy efficiency programmes and over the last few years has been reducing its consumption.





Note: The volume of water discharged corresponds to an estimated value.

Initiatives

Energy audits

GGND has a programme of energy audits and building checks carried out by specialised technicians within the scope of energy efficiency in buildings and in compliance with Decree-Law 68-A. These audits result in improvement measures for the reduction of the energy consumption of the installations, that also take into consideration a profitability assessment.

Periodic visits

There are programmes for periodic visits by specialised companies to check equipment and the electrical part, basing the checks on risk reduction criteria, maintenance and increasing the efficiency of the equipment installed, which helps to reduce energy consumption.

Our commitments

The Safety, Health and Environment Policy and **Major Accident Prevention** of GGND addresses the Company's commitments regarding the sustainable management of resources, namely the guarantee of inspection, maintenance and repair of equipment and facilities, in accordance with previously defined plans, and the use of energy and resources in an eco-efficient manner.

Water Resources, Waste and others

The historical consumption of water or other resources in GGND is very low, which is justified by the type of activities developed, (GGND has no industrial activity). In this context, materials were not considered and there was no need to set targets/objectives for reducing these resources.

7.3 Suppliers

Companies are increasingly aware of the importance of analysing their supply chain and knowing the impacts of their business across the value chain. Many companies in various sectors have included the topic of supply chain sustainability in their corporate social responsibility policies, promoting the adoption of social and environmental requirements, as well as initiatives designed to support suppliers to minimise their negative impacts and maximise the positive ones.

GGND is aware of the impact that its activity has on society, it seeks to create sustainable value and share it with its stakeholders. The Group plays an important role in the national economy and impacts the lives of thousands of people. It is therefore increasingly clear that the way in which the Group manages its relationship with the community, with natural resources and with the risks associated with its activities, has an impact on economic performance.

We highlight the partnership established with the service providers through service contracts to support the core activities of the distribution network operators and that cover its entire geography of concessions and licenses. Through these contracts, which involve directly and indirectly around 700 people, all the operational activities of emergency, maintenance and construction of gas distribution infrastructures are ensured. These also include activities associated with commercial expansion with the aim of creating conditions for an increase in the number of connection points, as well as the technical services carried out at the customers' facilities at the request of the suppliers.

In order to be aligned with the energy transition trends, GGND has been moving to implement initiatives, assuming its responsibility in the value chain:

Initiatives

Hiring criteria

The main supplies are covered by qualification criteria, which foresee the adoption of responsible business practices implemented by GGND and the Distribution Network Operators.

Star programme - safety engagement

Transversally, in contracts with contractors, there is an incentive programme (Star programme - safety engagement) which involves all the service providers and has as its main objectives the communication and training of all the teams in their technical and administrative activities, recognition of good practices, sharing of experiences and distinction of the best performances based on the continuous evaluation of the operations in the technical, procedural, behavioural and safety dimensions.

Our commitments

Considering the obligations and responsibilities associated with the public service provided by GGND operators, set out in the respective concession contracts and licenses, applicable regulations, regulatory framework, service quality and safety standards, the Company is committed through the **Star programme - safety engagement**, to promoting training and information for the technicians of the service providers in order to continuously improve the quality of the service provided.

This programme consists of an important mechanism for promoting good practices and developing skills for the organisation, whose impact is measured by GGND through tools for assessing gas customer satisfaction, occurrences in operation, accident rates, among others.

7.4 Customers (customer satisfaction)

In the initiatives carried out with clients, it is important to differentiate between:

- Suppliers/Retailers, which are customers of GGND and those who hold natural gas supply contracts with end customers/clients;
- End clients of natural gas.

Regarding the first group, and in the scope of the commercial relationship with these 34 Retailers (Natural Gas Supply Traders), GGND makes a point of being a facilitator in the commercial and operational relationship. As such, it maintains a close relationship with all Clients, demonstrating and showing total availability in order to solve and anticipate possible operational or commercial constraints.

Regarding the second group, a Client satisfaction index assessment in terms of services was made and results are presented in chapter 8.3. It is important to enhance that GGND continued to be recognized as a reference brand, achieving excellent results according to Portal da Queixa, the largest social network of consumers in the country.

Satisfaction surveys

A series of **surveys were carried out aimed at obtaining feedback from the end Customers** regarding the evaluation of the technical team and the global service to Clients where services were provided.

In the year 2021, the results of this assessment continued to show a high level of satisfaction of the service provided to customers by the 9 Network Operators of the GGND group.

Extension of the distribution network

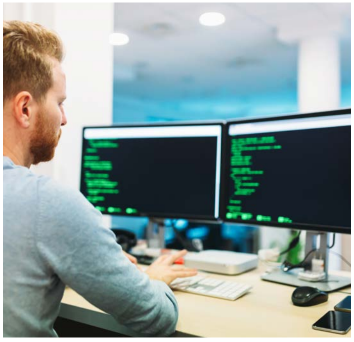
The Group developed the construction of a gas distribution network in new geographical areas favouring the access of local communities to this infrastructure, which promotes greater convenience, safety, savings and reduced environmental impact.

In 2021, construction work was carried out on the distribution network in a large number of parishes in municipalities that are already supplied, and construction work began to enable customers to be supplied in the municipalities of **Miranda do Corvo, Oliveira do Hospital, Vila Velha do Ródão and Sobral de Monte Agraço.**

Customer-oriented teams

GGND created a Committee, composed of a multidisciplinary team of business process experts, with the purpose of reviewing and implementing Customer-oriented practices and processes where the driver is the Customer Experience in the enjoyment of the service provided by the group companies.

Teams were set up dedicated to commercial quality control of the relationship with the consumer, ensuring the listening, monitoring and reporting satisfaction and quality perceived by the Customer.



Procedural and technological improvements

Procedural and technological improvements were incorporated in the digitalisation of communications and in the improvement of Customer satisfaction, resulting directly and indirectly in the simplification of the Customer experience.

Technical conditions were created to favour digital communications, using e-mail, website and SMS. In the same context, it was recommended, and accepted by the regulator, the inclusion in the Commercial Relations Regulation of the need to share customer contacts between market agents and network operators.

Conditions were also created for Customer feedback on digital interactions with GGND, providing visibility on Customer satisfaction regarding the digital solutions (interactive or informative) made available to them. Specifically with regard to the ggnd.pt portal.

Our commitments

Taking into account that this activity is regulated, GGND always seeks to comply with all regulations, namely ERSE's, and in its commercial relationship with all Clients/Suppliers it acts with total transparency, objectivity, impartiality and with equal treatment and opportunities.

Thus, committed to our ambition of being recognised by the Customer as a reference in terms of the experience we provide them with the service provided, we have concentrated on reformulating our modus operandi based on three aspects that have the greatest impact on the Customer.

Simplicity

The effort, complexity and time required from the Customer in its integration in the National Gas System, as well as in the other technical-legal activities inherent to the activity of the distribution network operators, shall be minimised and aligned with the cost-benefit ratio that the Customer attributes to each interaction with GGND's other business processes.

Relevance and Trust

Clients must be able to perceive the relevance and contribution that GGND represents in meeting their needs and exceeding their expectations; this is combined with trust based on the exercise of a reference technical performance in line with the best practices, accompanying the energy sector's technological innovation.

7.5 Communities

Communities are fundamental pillars of the Company. Investment in Community development is a shared value strategy, which demonstrates how GGND takes responsibility for its activities and invests in caring for local communities by responding to their needs.

Since the introduction of natural gas in Portugal, GGND has been guaranteeing the connection in a non-discriminatory and transparent manner to infrastructures and licensed services, enabling that a significant part of the population and economic activities may access a cleaner, safer and more comfortable form of energy.

By operating in the public domain at municipal and national level, GGND works daily with 102 municipalities and local government, ensuring that all of its interventions serve a common good, improving their quality of life and preserving the environment.

Relationship with local communities

Due to the relevance of Municipal Councils as key stakeholders of GGND, a specific area geared at managing relationships with local authorities was created within the Company.

This area aims to develop a greater proximity to local communities and give visibility and access to gas infrastructures within the municipalities, ensuring the connection of urbanizations and industries.

8. OPERATIONAL PERFORMANCE

8.1 Regulatory framework

During 2021, the Tariff Regulations for the gas sector were approved (under Regulation no. 368/2021, published in Diário da República, 2nd series - no. 82/2021, of 28 April), the Access to Grids, Infrastructures and Interconnections Regulations for the gas sector (under Regulation no. 407/2021, published in Diário da República, 2nd series - no. 92/2021, of 12 May) and the Quality of Service Regulations for the electricity and gas sectors (under Regulation no. 407/2021, published in Diário da República, 2nd series - no. 92/2021, of 12 May). Also approved was Directive no. 7/2021 on the risk and guarantee management system in the National Electricity System (SEN) and in the National Gas System (SNG), as well as the activity and procedures to be observed by the Integrated Guarantees Manager, and lastly, of note was the approval of the Gas Tariffs and Prices for the 2021-2022 gas year, in accordance with Directive no. 12/2021, published in the Official Gazette, 2nd Series - no. 124/2021, of 29 June.

The value of the allowed revenue is calculated in accordance with the applicable regulatory parameters published by ERSE at the beginning of each regulatory period and the year 2021 corresponds to the second year of the 5th regulatory period, which runs from January 1, 2020 to December 31, 2023.

The value of the recoverable allowed revenue for the gas distribution activity results from the sum of the following parts:

(i) cost of capital, defined as the product of the regulated asset base (RAB) by the rate of return (RoR) published by ERSE, plus the amortisation and depreciation of those assets. The RoR is made up of a fixed part and a variable part indexed to the average daily quotation of the 10-year Portuguese Treasury Bonds (OT), with a maximum and a minimum value. The average value of the OT is obtained by taking the average of the daily quotation, minus one-twelfth of the lowest and highest quotation values in the calendar year (January to December);

(ii) allowed net operating costs (OPEX) indexed to inflation and efficiency factors. The value of allowed costs has a fixed component and a variable component depending on 2 inducers (connection points and volume of gas distributed); and,

(iii) adjustments, namely those related to the tariff deviation, which corresponds to the difference between the revenue actually invoiced and the allowed revenue estimated by ERSE, and the difference is incorporated in the calculation of the recoverable allowed revenue for the second gas year following the calendar year to which it relates.

Regarding the gas supply activity, the value of the recoverable allowed revenue results from the sum of the following parts:

(i) allowed net operating costs (OPEX) indexed to inflation and efficiency factors. The value of allowed costs has a fixed component and a variable component depending on the number of customers;

(ii) additional income established in the trading license;

(iii) differential between average payment average receiving; and,

(iv) adjustments, namely those related to the tariff deviation, which corresponds to the difference between the revenue actually invoiced and the allowed revenue estimated by ERSE, and the difference is incorporated in the calculation of the allowed revenue for the second gas year following the calendar year to which it relates.

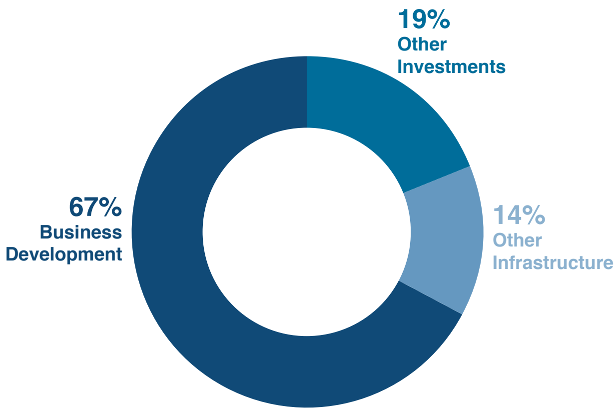
According to the current regulatory assumptions, the gas year period is from October to September of the following year, the period in which the regulated tariffs apply and in the year 2021 the Tariffs and gas prices for the gas year 2020-2021 (period from 1 January to 30 September) and the Tariffs gas prices for the gas year 2021-2022 (period from 1 October to 31 December) published by ERSE were applied.

The rate of return on regulated assets (RoR) published in the ERSE document "Gas tariffs and prices for the gas year 2021-2022", for the 2021 period was 4.70%. The regulated companies of GGND considered in their financial year 2021 a RoR of 4.72%, which was calculated according to the methodology mentioned above in the calculation of the allowed revenues.

8.2 Investment

thousands of €	2021	2020	Var. YoY	%Var. YoY
Business development	22 299	17 523	4 776	27.3%
Other infrastructure	4 668	3 317	1 351	40.7%
Other investments	6 265	4 997	1 269	25.4%
CAPEX	**33 232**	**25 837**	**7 395**	**28.6%**
IFRS 16	34	211	-177	(83.9%)
CAPEX+IFRS16	**33 266**	**26 048**	**7 218**	**27.7%**

Nature of the investment



The Investment in 2021 totalled €33.2 million, up 28.6% YoY (+€7.4 m). At the end of year, the gas distribution system totalled 13,498 km of distribution network.

Business development amounted to circa €22.3 million, representing 67% of the year's investment, of which 73% was applied in the expansion of the natural gas distribution network (+175 km of secondary network and +6,331 service lines) and the rest in attracting new connection points (+16,984) that were connected for the first time to the GGND group's distribution networks. The expansion of the GGND infrastructures to four new municipalities - Miranda do Corvo, Vila Velha do Rodão, Oliveira do Hospital and Sobral de Monte Agraço - should be highlighted.

The investment in other infrastructures, which amounted to €4.7 million, included the renewal of 9 km of network, as well as reinforcements to the existing network.

This level of investment reflects the continued effort and contribution of GGND in the development of the sector, allowing a significant part of the population and economic activities in Portugal to have access to alternative energy that is able to operate in an increasingly decarbonised manner, through the injection of renewable gases, with emphasis on the Green Pipeline Project underway.

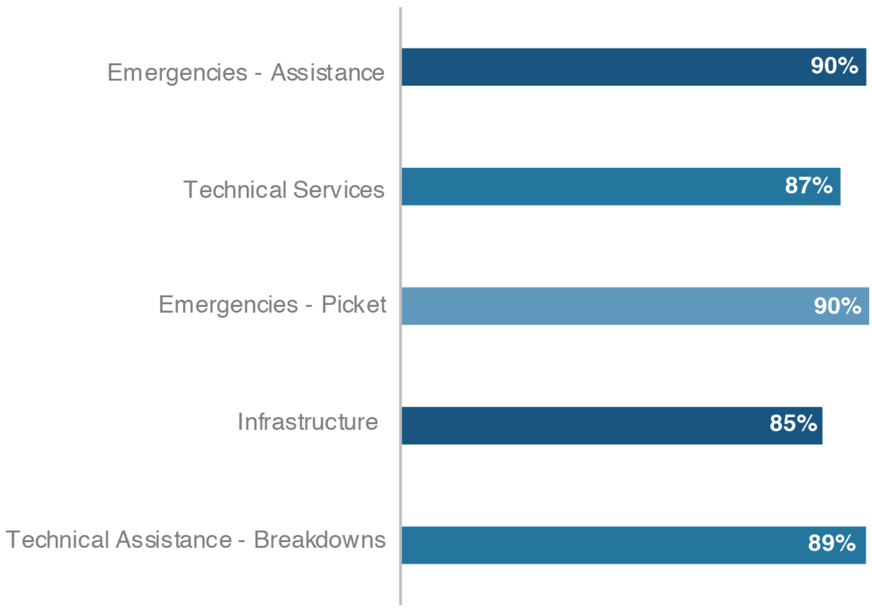
8.3 Operation

The volume of natural gas distributed in the distribution network was 18,073 GWh, an increase of 4.2% YoY, explained by the recovery in economic activity, mainly by the evolution in industrial activity, which had been greatly affected by the pandemic context in the previous year.

By 2021, the number of consumer sites increased by a net 9,037 YoY to a total of 1,126,159 connection points with contract.

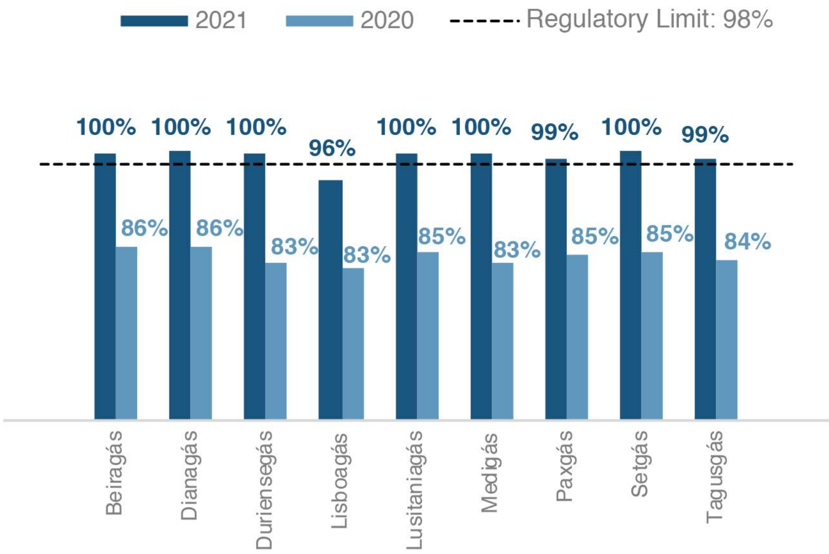
Throughout 2021, efforts continued to be made to optimise and continuously improve the support processes for distribution activities to ensure their efficiency, enable the desired levels of service quality and contribute to the satisfaction of customers supplied by GGND's infrastructures.

Level of consumer satisfaction per service provided



In terms of performance regarding the Service Quality indicators for the final customer in 2021, the Companies of the GGND Group complied with the standards established by ERSE in the Service Quality Regulations for the gas sector (RQS):

Frequency of readings (interval less than or equal to 64 days)



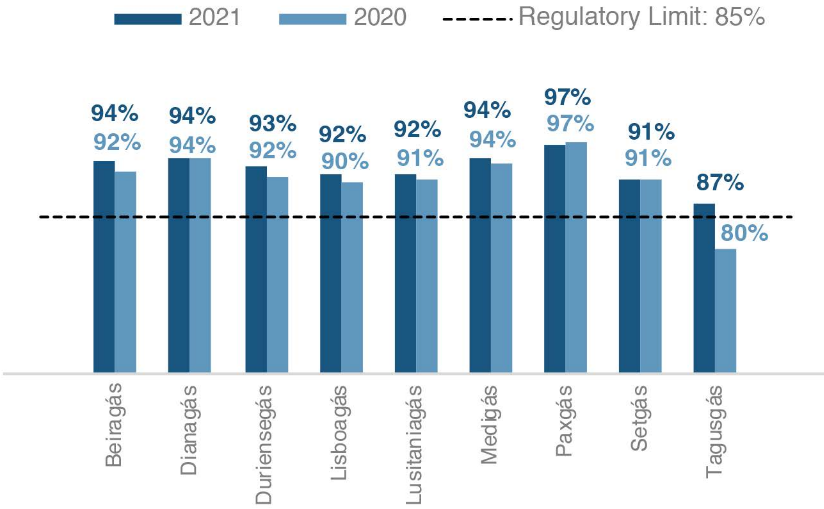
The non-compliance with this indicator in 2020, resulted from the declaration of the state of national emergency in March 2020 and the application of the regulation of exceptional measures published by ERSE that year in the Covid-19 context.

In the Company Lisboagás, there is an historic breach of this parameter resulting from the high number of gas meters that are still installed inside households. Technological evolution of intelligent gas meters will represent an important contribution to solve this situation and will also allow to:

- Improve significantly quality of service and information provided to clients;
- Improve the energy metering supplied to clients in a context of renewables gases injection in the gas distribution network.

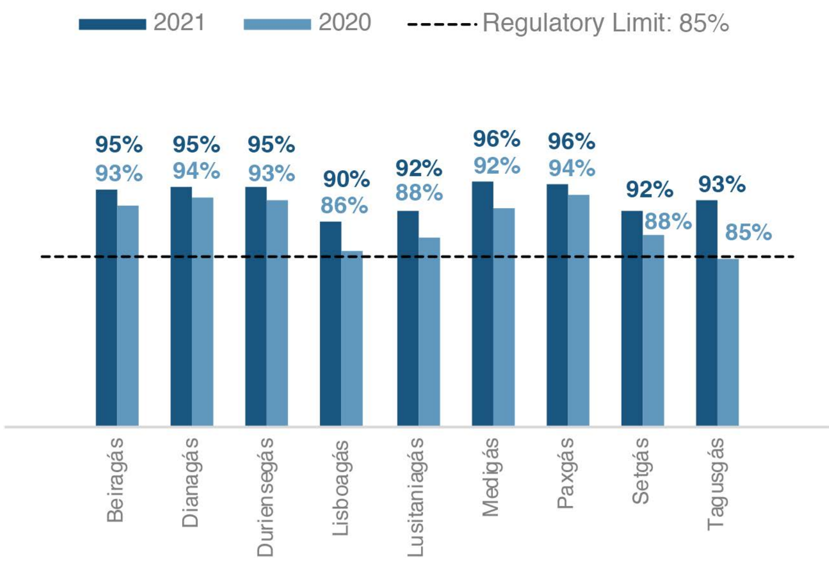
Lisboagás already concluded a first pilot project for intelligent metering and is currently preparing a second set of tests.

Emergency assistance (waiting time up to 60 seconds)



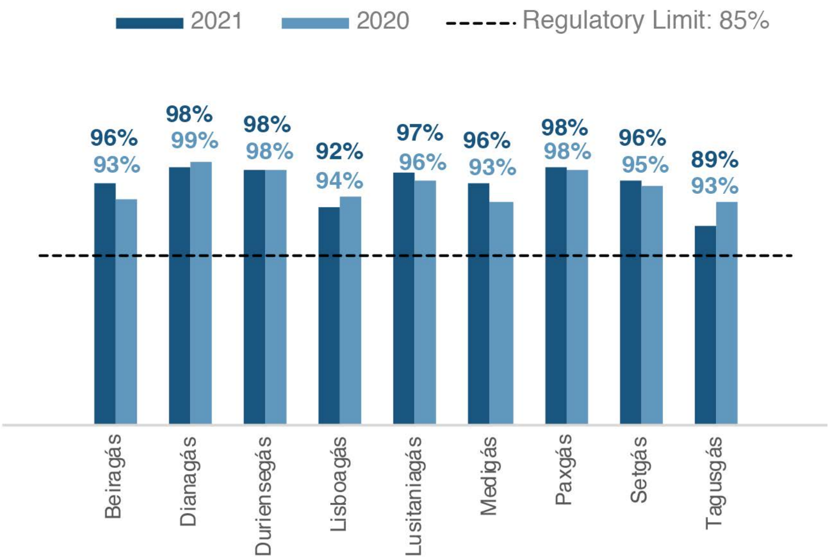
As mentioned above, the non-compliance of the Tagusgás Company with this indicator in 2020 resulted from an extraordinary event that caused a high volume of calls concentrated in a short time in the municipalities of Tomar and Almeirim, which registered in a single day a flow of calls equivalent to those received during 1 and 2 months, respectively.

Commercial service line (waiting time up to 60 seconds)

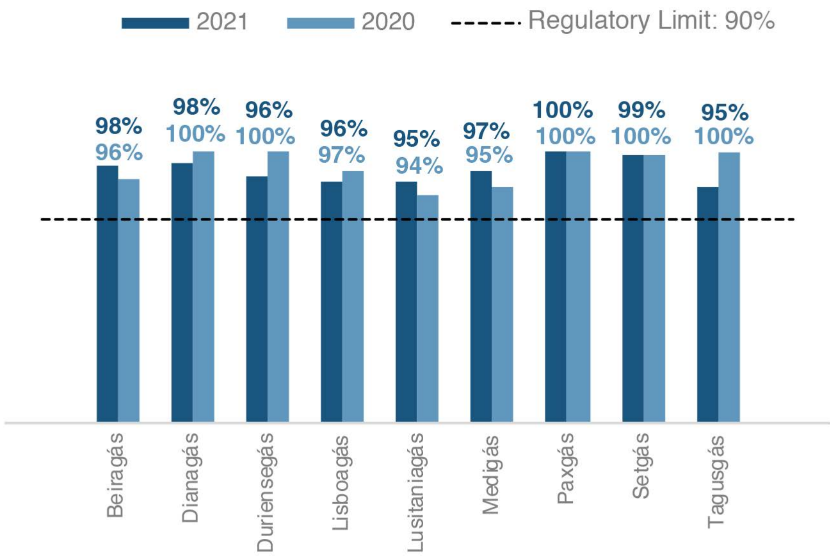


distribuição gás natural

Emergency situations (response time up to 60 minutes)



Written requests for information (answered within 15 days)



distribuição gás natural

9. FINANCIAL PERFORMANCE

9.1 Consolidated Results

thousands of €	2021	2020	Var. YoY	%Var. YoY
Turnover	158 724	155 749	2 975	1.9%
Net operating costs	(60 221)	(61 522)	1 301	(2.1%)
Cost of sales	(1 946)	(2 632)	686	(26.1%)
External supplies and services	(44 877)	(46 305)	1 428	(3.1%)
Employee costs	(22 633)	(21 929)	(704)	3.2%
Other operating income (costs)	9 264	9 410	(146)	(1.6%)
Impairment loss on receivables	(30)	(66)	36	(54.9%)
EBITDA	**98 503**	**94 227**	**4 276**	**4.5%**
Amortisation, depreciation and imparment [1]	(50 438)	(49 600)	(838)	1.7%
Provisions	(185)	(163)	(22)	13.5%
EBIT	**47 881**	**44 464**	**3 417**	**7.7%**
Share results of investments	0	70	(70)	(99.8%)
Financial results [1]	(10 135)	(10 199)	65	(0.6%)
Profit before tax	**37 746**	**34 335**	**3 411**	**9.9%**
Taxes	(10 261)	(8 507)	(1 754)	20.6%
Energy sector extrordinary contribution	(11 930)	(11 915)	(15)	0.1%
Consolidated net income	**15 555**	**13 913**	**1 642**	**11.8%**
Non-controling interests	(743)	(645)	(98)	15.2%
Net income to GGND	**14 811**	**13 267**	**1 544**	**11.6%**

[1] Includes IFRS 16

The turnover includes the amount of allowed revenues registered by the GGND Group Companies in 2021 of €143.1 million, an increase of 3.3% YoY, mainly impacted by the positive effect of the s-2 adjustment published by ERSE in 2021. The allowed revenues were calculated based on the real value, on December 31, 2021, of the variables that contribute to their calculation, according to the methodology published by ERSE for the current regulatory period.

As referred to in chapter 8.1, the RoR applied by the Group Companies in calculating the cost of capital in 2021 was 4.72% compared with 4.76% in 2020.

The GGND consolidated EBITDA was €98.5 million, an increase of 4.5% YoY. This favourable evolution, excluding the effects of the pass-through activities, which are offset, is mainly explained by the positive contribution of the s-2 adjustment of €4.8 million.

EBIT increased 7,7% YoY to €47.9 million, following the mentioned above, but negatively affected by the €0.8 million increase in depreciation and amortisation.

The financial results were negative by €10.1 million, registering a decrease, which allowed the average cost of debt to be reduced from 1.44% to 1.35%.

distribuição gás natural

Net income reached €15.6 million, an increase of €1.6 million, 11.8% YoY more, mainly due to the increase in EBITDA, mitigated by the effect of the €0.8 million increase in amortization and depreciation and €1.8 million in income tax.

The extraordinary contribution to the energy sector (CESE) in Portugal negatively impacted results by €11.9 million.

9.2 Cash Flow

thousands of €	2021	2020	Var. YoY	%Var. YoY
Cash and equivalents at the beginnig of the period	**76 879**	**42 705**	**34 174**	**80.0%**
Clients receipts	226 677	212 831	13 846	6.5%
Payments to suppliers	(69 852)	(69 366)	(487)	0.7%
Payments related to employees [1]	(28 084)	(24 439)	(3 645)	14.9%
(Payment)/Receipt of Income Tax	(12 752)	(4 052)	(8 700)	214.7%
Payment of value-added tax (VAT)	(28 823)	(24 492)	(4 331)	17.7%
Payment of underground taxes (TOS)	(19 496)	(15 700)	(3 795)	24.2%
Extraordinary contribution energy sector (CESE) [2]	(1 056)	0	(1 056)	100.0%
Other operating (payments)/receipts	(3 053)	(1 500)	(1 553)	103.5%
Cash flows from operating activities	**63 562**	**73 282**	**(9 721)**	**(13.3%)**
Cash flow from capital expediture	(30 680)	(25 875)	(4 805)	18.6%
Changes in the consolidation perimeter	0	(446)	446	(100.0%)
Financial investments	(2)	2 805	(2 807)	(100.1%)
Interest and similar income	0	0	(0)	(87.1%)
Cash flows from investing activities	**(30 682)**	**(23 516)**	**(7 166)**	**30.5%**
Capital increases and other equity instruments	0	0	0	100.0%
Payment of loans	(1 042)	(5 270)	4 228	(80.2%)
Net financial expenses [3]	(10 233)	(10 322)	89	(0.9%)
Payment of dividends	(31 000)	0	(31 000)	100.0%
Cash flows from financing activities	**(42 275)**	**(15 592)**	**(26 683)**	**171.1%**
Net cash flow	**(9 395)**	**34 174**	**(43 569)**	**127.5%**
Cash and equivalents at the end of the period	**67 484**	**76 879**	**(9 395)**	**(12.2%)**

[1] Includes payments to employees, early retirement and pre-retirement, pension fund, social security and staff income tax withheld
[2] CESE payment net of ancillary capital contributions, subject to the legal regime of supplementary capital
[3] Includes lease payments and lease interest (IFRS 16)

The Cash flow from operating activities (CFFO) amounted to €63.6 million, €9.7 million YoY less. The increase in client receipts of €13.8 million explained by the additional 4.2% in distributed volumes and compensations mechanism between DSOs, was not sufficient to offset the accretion in payments, mainly in terms of income tax of €8.7 million. This increase was mainly due to a reduction in the 2019 current tax and taking into consideration the payments on account made in that year, generated a receivable balance that was carried forward to 2020, and consequently a reduction in the tax payment in 2020, additionally referring to the increase in the effective tax rate.

In 2021, as a result of the unfavourable decisions of the Constitutional Court, the companies of the GGND group (Beiragás, Duriensegás, Lisboagás, Lusitaniagás, Setgás and Tagusgás), made the payment of the extraordinary contribution on the energy sector (CESE), regarding previous years, in the amount of €20.6 million. This payment was compensated by the shareholders through ancillary capital contributions, under the legal regime of supplementary capital, in the amount of €19.5 million.

The Cash flow from investment activities recorded a negative variation of €7.2 million, resulting from an increase in investment, as well as a reduction in the financial investments item due to the sale of Tagusgás Propano in the previous year.

The Free Cash Flow (FCF) was €32.9 million, a decrease of €16.9 million, 33.9% YoY, as explained above.

The net cash variation was negative by €9.4 million, for the reasons explained above and the distribution of a €31 million dividend to shareholders in 2021.

9.3 Financial Situation

thousands of €	2021	2020	Var. YoY
Net fixed assets	1 134 733	1 151 169	-16 436
Active use rights (IFRS 16)	11 499	12 309	-810
Working capital [1]	36 339	26 331	10 008
Subsidies to investment	(205 535)	(214 527)	8 992
Other non-current assets (liabilities)	(118 246)	(128 050)	9 804
Capital employed	**858 791**	**847 232**	**11 559**
Short-term debt	1 042	1 098	-56
Long-term debt	673 969	674 308	-339
Total debt	**675 011**	**675 406**	**-395**
Cash and equivalents	67 484	76 879	-9 395
Net Debt	**607 528**	**598 527**	**9 000**
Leases (IFRS 16)	**12 027**	**12 702**	**-675**
Equity	**239 236**	**236 002**	**3 234**
Equity, net debt and leases	**858 791**	**847 232**	**11 559**
Net Debt to equity	**2.5x**	**2.5x**	**-**

[1] Working capital = Current Assets - Current Liabilities (excluding Cash and equivalents, Short-term debt, Short-term leases and Short-term subsidies)

On December 31st 2021, GGND's net fixed assets stood at €1,134.7 million, a reduction of €16.4 million YoY, because the level of investment did not offset depreciation and amortisation for the year.

Working capital increased by €10.0 million YoY, impacted by the increase in the TOS balance (+€4.6 million) and the increase in the short-term tariff deviation (+€2.2 million).

Other non-current assets/liabilities decreased by €9.8 million YoY to negative €118.2 million, due to a reduction in provisions related to the EESC payment for previous years of €20.6 m, offset by the reinforcement of the EESC amount for the year by €11.9 m. There was also a reduction of €3.9 m in net liabilities with post-employment benefits and other benefits in the Pension Fund.

The tariff deviation to be received at the end of 2021 reached €29.6 million, + €0.5 million YoY.

GGND capital employed increased by €11.6 million YoY to €858.8 million, essentially reflecting the above variations.

At the end of the year, net debt stood at €607.5 million, an increase of €9.0 million YoY, mainly due to the reduction in cash and cash equivalents.

9.4 Financial Ratios

Under the EMTN Programme (Euro Medium Term Note Programme) issued by GGND, Financial Covenants (*Financial Covenants*), which represent protection for its Creditors. These ratios have two limits, one in the form of lock-up of dividends distribution and another in the form of event of default:

	2021	2020	Lock-up	Default
			Limits	
Net Debt[1] / EBITDA [2]	**6.2x**	6.4x	> 6.5x	> 7.0x
Debt Service Coverage Ratio [3]	**3.6x**	5.2x	< 2.0x	< 1.5x

[1] Bank Loan + Bond + Accrued Interest - Cash and equivalents
[2] EBITDA + Provisions
[3] (Cash Flow from Operating Activity, excluding CESE - CAPEX Payments) / Interest Service

The net debt to EBITDA ratio at 6.2x and the debt service coverage ratio at 3.7x are in compliance with the financial ratios defined in the EMTN Programme.

In addition, on November 2, 2021, after its usual annual review, S&P Global Ratings reiterated its “BBB-” long-term rating (“investment grade”) long-term rating of GGND, with a stable outlook.

10. RELEVANT FACTS OCCURRING AFTER THE CLOSING OF THE FINANCIAL YEAR

Due to the current situation resulting from the geopolitical conflict between Russia and Ukraine, GGND's management is monitoring the evolution of the situation in order to control any operational risks, ensure the maintenance of its activities and mitigate any materially relevant financial impacts on GGND Group companies. Up to the date of approval of the accounts, this conflict had no significant impact on GGND´s activity.

As indicated in Note 1 of the notes to the consolidated financial statements, the Licenses for the Distribution and Supply of natural gas to some municipalities, initially issued with a term in 2022, were modified in February 2022, becoming effective until December 31, 2027.

11. FUTURE PROSPECTS

If 2021 was the year in which GGND began the process of the greatest transformation in its recent history, 2022 will be a year of acceleration and achievement of many of these processes.

The creation of the new Company identity, in which all employees were involved, through the definition of the Purpose, Mission, Values and Behaviours of the new organisation, will allow to conclude the definition of the new brand.

Also internally, GGND will consolidate the organic changes necessary for its transformation process, creating solutions that will enable it to ensure the evolution towards an autonomous and sustainable operation and also towards process optimisation.

At the same time, the Company will continue to develop its operations and services with safety, efficiency and reliability.

2022 will also be a year of accelerated transformation of the energy sector and in particular the gas sector, through the increasing development of renewable gases.

GGND will continue to promote the decarbonisation of its infrastructures and the energy transition, guaranteeing the sustainability and the relevant role of the gas networks, thus ensuring the profitability of this asset which will be prepared in the coming years for an operation with renewable gases, gradually replacing the use of natural gas.

This activity will naturally be developed in full compliance with the legislation and regulations applicable to our activities, also promoting a positive social and environmental impact in the areas and communities where we operate.

We are aware that the transformations that lie ahead are, on the one hand, inevitable, because the climate and energy transition policies promoted at European and national level are quite clear, and because it is also a purpose of the organisation; and on the other hand, positive, because they represent a wide range of opportunities, based on the capacity to make the best use of the leadership position in the gas distribution market in Portugal and the will to be a driver of transformation and change.

Knowing the difficult circumstances experienced in early 2022 in Europe, and in particular by the populations of Ukraine and neighbouring regions, we would like to offer a word of support and solidarity to all those who see their lives dramatically affected by the ongoing events. GGND has been identifying initiatives and resources, within the Company and among its service providers, in order to create opportunities and solutions to support communities that choose Portugal as a destination for their lives.

12. FINAL REFERENCES

The Board of Directors of GGND is grateful for the cooperation of all those who, individually or collectively, contributed to the results achieved. It is to be noted, with appreciation:

- All the committed collaboration of the shareholders;
- The work carried out and commitment showed by the GGND Group's employees, highlighting teamwork;
- ERSE and Directorate General of Energy and Geology (DGEG) with whom the GGND has sought to establish the best relationship and cooperation for the development of the energy sector;
- The financial institutions that continue to support the Projects of the GGND group;
- Our suppliers, as important business partners;
- The Local Councils of the municipalities in the concession and licence areas of our Companies;
- The Supervisory Board and the Statutory Auditor for the effort and dedication with which they carried out their functions.

Finally, and because they are the first, to our clients, for the trust they have placed in the companies of the GGND Group, the Board of Directors of GGND would like to express its recognition and assure them that it will do everything to continue to improve the quality of the service provided.

13. PROPOSED APPLICATION OF RESULTS

GGND closed the financial year of 2021 with a positive net profit of €19,136,636.80 (nineteen million, one hundred and thirty-six thousand, six hundred and thirty-six euros and eighty cents), calculated on an individual basis, in accordance with the International Financial Reporting Standards (IFRS).

The Board of Directors proposes, under the terms of the law, that the net profit for the year 2021 of €19,136,636.80 be applied as follows:

- Allocation to the legal reserve in the amount of €956,831.84
- Transfer to retained earnings of €18,179,804.96

It is also proposed to distribute to the employees of the GGND Group and executive directors of GGND, as profit sharing for 2021, a maximum amount of up to €3,919,092.38, This amount is already recognised and expressed in the consolidated financial statements of GGND and in the individual financial statements of each of its participated companies, and the respective net results for 2021 were already calculated considering that amount.

The distribution of this amount among the GGND Group Companies for distribution to the respective employees will be determined by the Executive Committee of GGND, under the terms of the applicable internal rules, and among the executive directors of GGND will be determined by the General Meeting, under the applicable legal terms.

Lisbon, 7 April 2022

The Board of Directors

Diogo António Rodrigues da Silveira
Chairman

Jaroslava Korpancová
Member

Gabriel Nuno Charrua de Sousa
Member

Karl Klaus Liebel
Member

Yoichi Onishi
Member

Ippei Kojima
Member

Pedro Álvaro de Brito Gomes Doutel
Member

Nuno Luís Mendes Holbech Bastos
Member

José Manuel Rodrigues Vieira
Member

14. ANNEXES

Annex I - Declarations

A. Governing Bodies

As of this date, the composition of GGND's corporate bodies for the current 2019-2021 term of office is as follows:

Board of the General Assembly

Ana Paz Ferreira da Câmara Perestrelo de Oliveira, Chairwoman

Rafael de Almeida Garrett Lucas Pires, Secretary

Company Secretary

Rita Picão Fernandes, effective

Nuno Moraes Bastos, alternate

Board of Directors

Diogo António Rodrigues da Silveira, Chairman

Jaroslava Korpancová, member

Karl Klaus Liebel, member

Ippei Kojima, member

Nuno Luís Mendes Holbech Bastos

Gabriel Nuno Charrua de Sousa, member (CEO)

Yoichi Onishi, Member (CSO)

Pedro Álvaro de Brito Gomes Doutel, member (CFO)

José Manuel Rodrigues Vieira, member (COO)

Executive Committee

Gabriel Nuno Charrua de Sousa, CEO

Yoichi Onishi, CSO

Pedro Álvaro de Brito Gomes Doutel, CFO

José Manuel Rodrigues Vieira, COO

Audit Board

Daniel Bessa Fernandes Coelho, Chairman

Pedro Antunes de Almeida, member

Armindo José Faustino dos Santos Marcelino, member

Amável Alberto Freixo Calhau, alternate member

Statutory Auditor

PricewaterhouseCoopers & Associados - SROC, Lda. represented by:

Rita da Silva Gonçalves dos Santos, ROC no. 1681, effective

José Manuel Henriques Bernardo, ROC no. 903, alternate

Changes that occurred in the 2021 financial year:

Nuno Luís Mendes Holbech Bastos, elected to the position of member of the Board of Directors, by shareholders unanimous resolution dated 25 February 2022, to replace Maria Marta de Figueiredo Geraldes.

Nuno Moraes Bastos, appointed Substitute Company Secretary on November 26, 2021, to replace Inês Figueira.

Pedro Álvaro de Brito Gomes Doutel, elected as a member of the Board of Directors by shareholders unanimous resolution of 6 October 2021, to replace Yoichi Onishi in the position of CFO (Chief Financial Officer), who remains a member of the Board with the position of CSO (Chief Strategy Officer).

Ippei Kojima, elected to the position of member of the Board of Directors by shareholders unanimous resolution dated 16 April 2021, replacing Yoichi Noborisaka.

Diogo António Rodrigues da Silveira, elected for the position of Chairman of the Board of Directors by shareholders unanimous resolution of 16 April 2021.

Karl Klaus Liebel and Jaroslava Korpancová, elected to the positions of members of the Board of Directors by shareholders unanimous resolution of 24 March 2021.

They resigned their positions by letters dated March 24, 2021: Carlos Manuel Costa Pina (Chairman of the Board of Directors), Maria Leonor Pedrosa dos Santos Machado de Baptista Branco (Vice-Chairman of the Board of Directors) and Ana Isabel Simões Dias dos Santos Severino (Member of the Board of Directors).

B. Qualified holdings in the company's share capital on 31 December 2021

Shareholders	No. of Shares	Nominal Value	%
Allianz Infrastructure Luxembourg II S.à r.l.	40 743 759	1.00 EUR	45.51%
Allianz European Infrastructure Acquisition Holding S.à r.l.	26 412 050	1.00 EUR	29.50%
Meet Europe Natural Gas, Lda.	20 144 057	1.00 EUR	22.50%
Petrogal, S.A.	2 229 275	1.00 EUR	2.49%
Total	**89 529 141**	**1.00 EUR**	**100.00%**

C. Own shares

(Articles 66 d) and 325-A paragraph 1 of the Portuguese Companies Code)

During the 2021 financial year, GGND did not acquire or dispose of any of its own shares.

On 31 December 2021, GGND did not hold any own shares.

D. Shareholder position of the members of the management and supervisory bodies as at 31 December 2021

(Article 447 paragraph 5 of the Portuguese Companies Code)

None of the members of the management and supervisory bodies held GGND shares or bonds on 31 December 2021.

E. Annual amount of remuneration earned, on aggregate and individually, by members of the Company's management and supervisory bodies and the board of the General Meeting in 2021

(Article 3 of Law No. 28/2009 of 19 June, applicable pursuant to Article 3 of the Legal Framework of Audit Supervision approved by Law No. 148/2015 of 9 September)

The gross annual amount of remuneration earned on aggregate and individually in 2021 by the members of the Company's management and supervisory bodies and the board of the general meeting currently in office is shown in the table below.

Directors

Unit. EUR

Name	Position	Fixed Remuneration	Other Remunerations [3]	Variable Remuneration	Total
Diogo da Silveira [1]	Chairman of the Board of Directors non-executive	141 667	0	0	141 667
Gabriel Sousa	Executive director (CEO)	135 900	2 693	25 000	163 593
Pedro Doutel [2]	Executive director (CFO)	38 416	665	0	39 081
Yoichi Onishi	Executive director (CSO)	108 000	65 793	19 000	192 793
José Vieira	Executive director (COO)	113 250	2 737	24 800	140 787
	Total	**537 233**	**71 889**	**68 800**	**677 922**

[1] Elected by shareholders unanimous written resolution of April 16, 2021
[2] Elected by by shareholders unanimous written resolution of October 6, 2021
[3] Includes amounts related to food allowance and amounts associated with impatriation

Audit Board

Unit. EUR

Name	Position	Fixed Remuneration
Daniel Bessa	Chairman	42 000
Armindo Marcelino	Member	18 000
Pedro Almeida	Member	13 887
	Total	**73 887**

Board of the General Assembly

Unit. EUR

Name	Position	Attendance fees
Ana Perestrelo	Chairman	1 500
Rafael Lucas Pires	Secretary	500
	Total	**2 000**

Statutory Auditor/External Auditor

The value of auditing services in 2021 amounted to €96,800 and the amount for non-auditing services was €20,800.

In 2021, the Statutory Auditor/External Auditor and the entities in its network provided the following non-audit services to the Company and to companies in a control relationship with it:

- Limited Review of GGND;
- Verification of physical quantities, subsoil occupancy rates and regulated accounts of the Group Companies for regulatory purposes.

In 2021 the non-audit services represented 19.6% of the average fees paid to the External Auditor in 2018, 2019 and 2020 for financial audit services provided to GGND and entities under the control of GGND in the same period (below the 70% threshold set in Article 4(2) of EU Regulation No. 537/2014).

F. Provision of services to group companies and creditor positions in subsidiaries

(Article 5, paragraph 4 of Decree-Law no. 495/88 of December 30th, as amended by Decree-Law no. 318/94 of December 24th)

See Note 28 in the notes to the individual financial statements and Note 30 in the notes to the consolidated financial statements.

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Annex II - Declaration of compliance by members of the Board of Directors

In accordance with the applicable reporting principles for annual financial information, each of the members of the Board of Directors listed below hereby declares that, to the best of their knowledge, the management report, the annual accounts, the legal certification of accounts and other accounting documents for the financial year of 2021 were prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, of the financial situation and of the results of GGND and the companies included in the consolidation perimeter, and that the management report faithfully describes the evolution of the business, performance and position of GGND and the companies included in the consolidation perimeter and contains a description of the main risks and uncertainties that GGND and the companies included in the consolidation perimeter face in their activity.

Lisbon, 7 April 2022

The Board of Directors

Diogo António Rodrigues da Silveira
Chairman

Jaroslava Korpancová
Member

Karl Klaus Liebel
Member

Ippei Kojima
Member

Nuno Luís Mendes Holbech Bastos
Member

Gabriel Nuno Charrua de Sousa
Member

Yoichi Onishi
Member

Pedro Álvaro de Brito Gomes Doutel
Member

José Manuel Rodrigues Vieira
Member

Consolidated Financial Statements as at 31 December 2021

GALP Gás Natural Distribuição, S.A.

Disclaimer:

Translation of a report originally issued in Portuguese. In the event of a discrepancy, the Portuguese language version prevails.

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Galp Gás Natural Distribuição, S.A.
Head Office: Rua Tomás da Fonseca Torre C, 1600-209 Lisboa
Share Capital: 89 529 141 Euros
MCRC / NIPC 509 148 247

Galp Gás Natural Distribuição, S.A.
Head Office: Rua Tomás da Fonseca Torre C, 1600-209 Lisboa
Share Capital: 89 529 141 Euros
MCRC / NIPC 509 148 247

Consolidated statement of financial position

Galp Gás Natural Distribuição, S.A.

Consolidated statement of financial position as at 31 December 2021 and 31 December 2020

(Amounts stated in thousand Euros - € k)

Assets	Notes	2021	2020
Non-current assets:			
Tangible assets	5	450	469
Goodwill	9	2 275	2 275
Intangible assets	6	1 134 283	1 150 700
Right-of-use of assets	7	11 499	12 309
Deferred tax assets	17	17 551	17 788
Other receivables	12	14 237	25 831
Other financial assets	13	3	7
Total non-current assets:		1 180 299	1 209 378
Current assets:			
Inventories	11	1 810	2 097
Trade receivables	12	10 696	10 626
Other receivables	12	68 406	59 141
Cash and cash equivalents	14	67 484	76 879
Total current assets:		148 395	148 743
Total assets:		1 328 694	1 358 121

Equity and Liabilities	Notes	2021	2020
Equity:			
Share capital	23	89 529	89 529
Ancillary capital contributions	23	19 516	-
Reserves	23	12 080	11 045
Retained earnings		97 911	115 476
Total equity attributable to shareholders:		219 036	216 050
Non-controlling interests	24	20 200	19 952
Total equity:		239 236	236 002
Liabilities:			
Non-current liabilities:			
Financial debt	15	673 969	674 308
Lease liabilities	7	11 012	11 635
Other payables	16	197 415	215 830
Post-employment and other employee benefit liabilities	18	62 370	66 253
Deferred tax liabilities	17	19 596	19 471
Provisions	19	69 256	77 713
Total non-current liabilities:		1 033 617	1 065 210
Current liabilities:			
Financial debt	15	1 042	1 098
Lease liabilities	7	1 015	1 068
Trade payables	16	8 381	9 216
Other payables	16	44 185	41 638
Current income tax payable	17	1 217	3 889
Total current liabilities:		55 840	56 909
Total liabilities:		1 089 457	1 122 119
Total equity and liabilities:		1 328 694	1 358 121

The accompanying notes form an integral part of the consolidated statement of financial position and must be read in conjunction.

distribuição gás natural

Consolidated statement of income and comprehensive income

Galp Gás Natural Distribuição, S.A.

Consolidated statement of income and comprehensive income for the years ended 31 December 2021 and 31 December 2020

(Amounts stated in thousand Euros - € k)

	Notes	2021	2020
Sales	25	3 416	4 628
Services rendered	25	155 308	151 120
Other operating income	25	40 690	35 009
Financial income	28	170	159
Earnings from associates		-	70
Total revenues and income:		199 584	190 986
Cost of sales	26	(1 946)	(2 632)
Supplies and external services	26	(44 877)	(46 305)
Staff costs	27	(22 633)	(21 929)
Amortisation, depreciation and impairment losses on fixed and right-of-use assets	26	(50 438)	(49 600)
Provisions	26	(185)	(163)
Impairment losses on accounts receivables	26	(30)	(66)
Other operating costs	26	(31 426)	(25 598)
Financial expenses	28	(10 305)	(10 358)
Total costs and expenses:		(161 839)	(156 651)
Profit before taxes and other contributions:		37 746	34 335
Income Tax	17	(10 261)	(8 507)
Energy Sector Extraordinary Contribution	19	(11 930)	(11 915)
Consolidated net income for the year		15 555	13 913
Income attributable to:			
Galp Gás Natural Distribuição, S.A. Shareholders		14 811	13 267
Non-controlling interests	24	743	645
Basic and Diluted Earnings per share (in Euros)		0.17	0.15

	Notes	2021	2020
Consolidated net income for the year		15 555	13 913
Items which will not be recycled in the future through net income			
Remeasurements - pension fund	18	(284)	(6 278)
Income taxes related to remeasurements	17 and 18	(274)	1 173
Total other comprehensive income:		(558)	(5 105)
Total Comprehensive income for the year, attributable to:		14 996	8 808
Galp Gás Natural Distribuição, S.A. Shareholders		14 253	8 163
Non-controlling interests		743	645

The accompanying notes form an integral part of the consolidated Statement of Income and comprehensive income.

Galp Gás Natural Distribuição, S.A.
Head Office: Rua Tomás da Fonseca Torre C, 1600-209 Lisboa
Share Capital: 89 529 141 Euros
MCRC / NIPC 509 148 247

Consolidated statement of changes in equity

Galp Gás Natural Distribuição, S.A.
Consolidated statement of changes in equity for the years ended 31 December 2021 and 31 December 2020
(Amounts stated in thousand Euros - € k)

	Notes	Share capital	Ancillary capital contributions	Reserves	Retained earnings	Sub-Total	Non-controlling interests (Note 24)	Total
As at 1 January 2020		89 529	-	9 454	108 905	207 888	19 590	227 477
Consolidated net income for the year		-	-	-	13 267	13 267	645	13 913
Other gains and losses recognised in equity	18	-	-	-	(5 105)	(5 105)	-	(5 105)
Comprehensive income for the year		-	-		8 163	8 163	645	8 808
Increase/decrease in capital reserves		-	-	1 592	(1 592)	-	(283)	(283)
As at 31 December 2020		89 529	-	11 045	115 477	216 051	19 952	236 002
Consolidated net income for the year		-	-	-	14 811	14 811	743	15 555
Other comprehensive income	18	-	-	-	(558)	(558)	-	(558)
Comprehensive income for the year		-	-	-	14 253	14 253	743	14 996
Other adjustments	2.3	-	-	-	(268)	(268)	-	(268)
Dividends distributed	23	-	-	-	(30 515)	(30 515)	(492)	(31 007)
Increase/decrease in capital reserves	23	-	-	1 035	(1 035)	-	(4)	(4)
Constitution/Increase in ancillary capital contributions	23	-	19 516	-	-	19 516	-	19 516
As at 31 December 2021		89 529	19 516	12 080	97 911	219 037	20 200	239 236

The accompanying notes form an integral part of the consolidated statement of changes in equity and must be read in conjunction.

Consolidated statement of cash flow

Galp Gás Natural Distribuição, S.A.
Consolidated statement of cash flow for the years ended 31 December 2021 and 31 December 2020
(Amounts stated in thousand Euros - €k)

	Notes	2021	2020
Operating activities:			
Cash received from customers		226 677	212 831
(Payments) to suppliers		(69 852)	(69 366)
(Payments) to staff		(28 084)	(24 439)
(Payments) relating to VAT		(28 823)	(24 492)
(Payments) relating to income tax	17	(12 752)	(4 052)
(Payments) relating to Subsoil occupation levies		(19 496)	(15 700)
(Payments) relating to Energy Sector Extraordinary Contribution	19 and 23	(1 056)	-
Other receipts relating to the operational activity		(3 056)	(1 500)
Cash flow from operating activities (1)		63 562	73 282
Investing activities:			
Cash received from disposals of tangible and intangible assets		1	23
(Payments) for the acquisition of tangible and intangible assets		(30 681)	(25 898)
Cash changes due to changes in the consolidation perimeter		-	(446)
Cash received relating to financial investments		-	2 835
(Payments) relating to financial investments		(2)	(30)
Cash flow used in investing activities (2)		(30 682)	(23 516)
Financing activities:			
(Payments) related to loans obtained	15	(1 042)	(5 270)
(Payments) from interests and similar costs		(9 150)	(9 110)
Payments relating to leases	7	(728)	(767)
Payments relating to lease interests	7	(354)	(384)
Dividends paid	23	(31 000)	-
Other financing operations		-	(61)
Cash flow used in financing activities (3)		(42 275)	(15 592)
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		(9 395)	34 174
Cash and cash equivalents at the beginning of the year	14	76 879	42 705
Cash and cash equivalents at the end of the year	14	67 484	76 879

The accompanying notes form an integral part of the consolidated statement of Cash flow.

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Notes to the consolidated financial statements as at 31 December 2021

1 Introductory note

Parent-Company

Galp Gás Natural Distribuição, S.A. (designated as GGND or Company), with Head Office at Rua Tomás da Fonseca in Lisbon, Portugal, develops its corporate purpose in the energy sector, especially the natural gas distribution and commercialisation, including supporting management services in the areas of management, administration and logistics, purchasing and supply and information systems.

The Group

On December 31, 2021, the GGND Group ("Group") is composed by Galp Gás Natural Distribuição and subsidiaries that develop their activities in the distribution and last resort commercialisation of natural gas.

In October 2016, Galp Gás & Power, SGPS, S.A. (nowadays Galp New Energies, S.A.) sold 22.5% of the Group Gás Natural Distribuição, S.A. to Meet Europe Natural Gas Lda. This sale resulted in an agreement concluded in 28 July 2016 between Galp Energia SGPS, S.A., through its subsidiary Galp New Energies, S.A. and Marubeni Corporation and Toho Gas Co. Ltd..

On 26 October 2020, Galp New Energies S.A. agreed with Allianz Capital Partners, on behalf of the insurance companies Allianz Infrastructure Luxembourg II S.à.r.l. and Allianz European Infrastructure Acquisition Holding S.à.r.l, to sell 75.01% of its stake in GGND with the remaining 2.49% of GGND's share capital being held by Galp through its subsidiary Petrogal, S.A.

On 24 March 2021, and after the regulatory authorisations and obtaining consents from third parties, Allianz Capital Partners which ultimate beneficial owner is Allianz SE, became the holder of 75.01% of GGND's share capital. The remaining share capital of GGND are held by Meet Europe Natural Gas, Lda and by Petrogal, S.A.

Gas Activity

The business segment of gas covers the natural gas distribution, exercised under a public service regime, and the natural gas commercialisation as a retail last resort, according to the applicable regulation.

This public service was granted by the Portuguese State to the GGND Group companies, five of which operate under a Concession contract for a period of 40 years starting in 2008 (until the year 2047), while the others operate under exploration licenses for operating the local distribution network, for a period of 20 years, from 1 January 2008 until 2027 and, as it supplies gas to less than 100,000 customers, last resort commercialisation retailer licenses were also granted, to the commercialisation to customers with consumption below 2Mm3/year, who choose to remain under the regulated tariff regime. The licenses for gas distribution and commercialisation, whose period ended in 2022, were reissued in February 2022, pursuant to paragraph 2 of article No. 70 of Decree-Law 140/2006 from 26 July, starting from 1 January 2008 to 31 December 2027, similar to the other licenses held by the Group (Note 32).

Head Office: Rua Tomás da Fonseca Torre C, 1600-209 Lisboa
Share Capital: 89 529 141 Euros
MCRC / NIPC 509 148 247

In summary, for each subsidiary company, the detail of licenses, as well as their maturity, is presented below:

Subsidiary	Licences and period
Beiragás – Companhia de Gás das Beiras, S.A.	Concession Area: for a period of 40 years from 1 January 2008 until the year 2047 for the Distribution and Last Resort Commercialisation Retailer activities.
Tagusgás – Empresa de Gás do Vale do Tejo, S.A.	Concession Area: for a period of 40 years from 1 January 2008 until the year 2047 for the Distribution and Last Resort Commercialisation Retailer activities.
Lusitaniagás - Companhia de Gás do Centro, S.A.	Concession Area: for a period of 40 years from 1 January 2008 until the year 2047 for the Distribution activity.
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	Concession Area: for a period of 40 years from 1 January 2008 until the year 2047 for the Distribution activity.
Setgás - Sociedade Distribuidora de Gás Natural, S.A.	Concession Area: for a period of 40 years from 1 January 2008 until the year 2047 for the Distribution activity.
Dianagás – Sociedade Distribuição de Gás Natural de Évora, S.A.	Exploration licenses: for a period of 20 years, which ends in the year 2027 for the Évora exploration hub (the start date of the license was modified in 2022 under paragraph 2 of article No. 70 of Decree-Law 140/2006 from 26 July, starting from 1 January 2008) and Sines, for the Distribution and Last Resort Commercialisation Retailer activities.
Duriensegás – Sociedade Distribuidora de Gás Natural do Douro, S.A.	Exploration licenses: for a period of 20 years, which ends in the year 2027 (for Bragança, Chaves and Vila Real the start date of the license was modified in 2022 under paragraph 2 of article No. 70 of Decree-Law 140/2006 from 26 July, starting from 1 January 2008) for the Amarante, Bragança, Chaves, Marco de Canaveses and Vila Real exploration hubs, for the Distribution and Last Resort Commercialisation Retailer activities.
Medigás – Sociedade Distribuidora de Gás Natural do Algarve, S.A.	Exploration licenses: for a period of 20 years, which ends in the year 2027 for the Faro and Olhão exploration hubs (the start date of the license was modified in 2022 under paragraph 2 of article No. 70 of Decree-Law 140/2006 from 26 July, starting from 1 January 2008) and Portimão, for the Distribution and Last Resort Commercialisation Retailer activities.
Paxgás – Sociedade Distribuidora de Gás Natural de Beja, S.A.	Concession Area: for a period of 40 years from 1 January 2008 until the year 2047 for the Distribution and Last Resort Commercialisation Retailer activities.

During 2021, the Tariff Regulation for the gas sector was approved (according to Regulation no. 368/2021, published in the Diário da República, 2nd series - no. 82/2021, from 28 April), the Regulation to Access to Networks, Infrastructures and Interconnections in the gas sector (according to Regulation no. 407/2021, published in the Diário da República, 2nd series – no. 92/2021, from 12 May) and Regulation to the Quality of Service in the electricity and gas sectors (according to Regulation no. 406/2021, published in the Diário da República, 2nd series – no. 92/2021). The Directive no. 7/2021 was also approved on the risk and guarantees management regime in the National Electric System (SEN) and in the National Gas System (SNG), as well as the activity and procedures to be observed by the Integrated Guarantees Manager, and finally, the approval of gas tariffs and prices for the 2021-2022 gas year, according to Directive no. 12/2021, published in the Diário da República, 2nd series - no. 124/2021, from June 29.

Within the scope of the referred legislation, the Group develops the Gas Distribution Activity ("ADG") and the Network Access Activity ("AAR") in the scope of its Distribution Network Operator ("ORD") activity, and the Gas Commercialisation Activity, in the scope of its Last Resort Commercialisation Retailer ("CURR"), which includes the following functions: (i) Purchase and Sale of gas (“FCVG”); (ii) Purchase and Sale of Network Access (“FCVAR”); (iii) and Commercialisation of gas (“FCG”).

2 Significant accounting policies, judgments and estimates

2.1. Basis of presentation

Financial Statements are presented in thousands of Euros (unit: € k), rounded to the nearest thousand, unless otherwise stated. Therefore, the subtotals and totals of the tables presented in these consolidated financial statements and explanatory notes may not be equal to the sum of the amounts presented, due to rounding.

Company’s consolidated financial statements were prepared on a going concern basis, at historical cost, on the accounting records of companies included in the consolidation maintained in accordance with International Financial Reporting Standards as adopted by the European Union, effective for the economic exercise beginning in 1 January 2021. These standards include International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (“IASB”) and International Accounting Standards (“IAS”) issued by the International Accounting Standards Committee (“IASC”) and respective interpretations – SIC and IFRIC, issued by the Standing Interpretation Committee (“SIC”) and International Financial Reporting Interpretation Committee (“IFRIC”). These standards and interpretations are hereinafter referred to as “IFRS”.

The accounting policies adopted are, according to their content, included in the respective note in the notes to the financial statements. Common or generic accounting policies for several notes are found in this Note.

Information disclosure

Due the United Kingdom's exit from the European Union, and since the bonds issued by Galp Gás Natural Distribuição, S.A. under the Medium Term Note Program are only admitted to trading on the main market of the London Stock Exchange, Galp Gás Natural Distribuição, S.A. is no longer subject to the supervision of the Securities Market Commission (CMVM - "Comissão do Mercado de Valores Mobiliários") and to the obligations to provide and disclose information provided for in the Securities Code (CVM - "Código dos Valores Mobiliários"). Thus, Galp Gás Natural Distribuição, S.A. became to be subject to the supervision of the Financial Conduct Authority (FCA) and to continue to provide and disclose relevant information in accordance with the reporting and transparency obligations established by the FCA for issuers of securities.

It should also be noted that, in accordance with the regime established by the FCA, for financial years beginning after 31 December 2020, the IFRS issued by IASB are equivalent to the International Financial Reporting Standards adopted by the United Kingdom for the purposes of the Transparency Rules (in the terms defined by section 474 (1) of the Companies Act 2006).

2.2. Judgments and estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires estimates that affect the recorded amount of assets and liabilities, the disclosure of contingent assets and liabilities at the end of each year and income and expenses recognised each year. The actual results could be different depending on the estimates currently made.

Certain estimates are considered critical if: (i) the nature of the estimates is considered to be significant due to the level of subjectivity and judgment required to record situations in which there is great uncertainty or a high susceptibility of these situations to changes; and (ii) the impact of the estimates on the financial situation or operating performance is significant.

The accounting principles and areas that require the greatest number of judgments and estimates in the preparation of the financial statements are: (i) impairment of goodwill, intangible assets and right-of-use assets (Notes 6, 7 and 9); (ii) provisions for contingencies (Note 19); (iii) demographic and financial assumptions used to calculate liabilities for retirement and other benefits (Note 18); (iv) impairment of accounts receivable (Note 12); (v) useful lives and residual values of intangible assets (Note 6); and (vi) deferred tax assets and uncertain tax position estimates (Note 17).

2.3. Other adjustments

As at 31 December 2020, the company Medigás - Sociedade Distribuidora de Gás Natural do Algarve, S.A. (Medigás) corrected the balance related to the tariff deviation in its 2020 net income, whose impact on the GGND Group's accounts was directly reflected in equity, in Retained earnings.

This correction amounted to €268 k, changing Medigás' 2020 net income from €695 k to €427 k.

2.4. Accounting policy

Translation of foreign currencies

Transactions are recorded in the separate financial statements of the subsidiaries in its functional currency, at the exchange rates in force on the dates of the transactions.

The monetary assets and liabilities expressed in foreign currency in the separate financial statements of the are translated into the functional currency of each subsidiary, using the exchange rate prevalent at the date of the end of the reporting period.

Gains and losses resulting from differences between the exchange rates in force on the dates of the transactions and those prevailing at the date of collection, payment or at the end of the reporting period are recorded as income and expenses, respectively, in the consolidated Statement of Income in the same captions where the revenue and expenses associated with these transactions are reflected.

Basic and diluted earnings per share

The basic earnings per share are calculated based on the division of profits or losses attributable to holders of the Company's common equity by the weighted average number of outstanding common shares during the period. For the purpose of calculating diluted earnings per share, the Company adjusts the profits or losses attributable to holders of the Company's common equity, as well as the weighted average number of outstanding shares, for the purposes of all potential diluting common shares. In the period covered by these financial statements, there were no dilutive effects with an impact on net earnings per share, so this is equal to the basic earnings per share.

3 Impact of the application of new or amended International Financial Reporting Standards

The IFRSs endorsed and published in the Official Journal of the European Union ("OJEU") during the year ended 31 December 2021 and enforceable for accounting purposes in subsequent years are presented in the table below:

IAS Standards	Publication date in OJEU	Accounting application date	Enforcement year	Observations
IFRS 17 Insurance contracts (issued on 18 May 2017); including amendment to IFRS 17 (issued in 25 June 2020)	23/11/2021	01/01/2023	2023	Not applicable
Amendment to IFRS 3 Definition of business, IAS 16 Tangible fixes assets, IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual improvements of standards IFRS cycle 2018-2020 (all issued on 14 May 2021)	02/07/2021	01/01/2022	2022	No predictable impact

The IFRSs endorsed and published in the OJEU applicable in the year 2021 are presented in the table below:

IAS Standards	Publication date in OJEU	Accounting application date	Enforcement year	Observations
Amendment to IFRS 16 Leases – Related rent concessions beyond 30 June 2021 (issued on 31 March 20021).	31/08/2021	01/04/2021	2021	No relevant accounting impacts
Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark reform – Phase 2 (issued on 27 August 2020).	14/01/2021	01/01/2021	2021	No relevant accounting Impacts
Amendment to IFRS 4 Insurance Contracts – Temporary exemption from applying IFRS 9 (issued on 25 June 2020)	16/12/2020	01/01/2021	2021	Not applicable

IFRS standards (new and amendments) that become effective, on or after 1 January 2022, not yet endorsed by the European Union are summarised in the table below:

IAS Standards	Accounting application date	Enforcement year	Observations
IAS 1 – Presentation of Financial statements – Classification of liabilities; Disclosure of accounting policies	01/01/2023	2023	No predictable significant impact
IAS 8 – Disclosure of accounting estimates	01/01/2023	2023	No predictable significant impact
IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction	01/01/2023	2023	No predictable significant impact
IFRS 17 – Initial presentation of IFRS 17 and IFRS 9 – Comparative information	01/01/2023	2023	Not applicable

4 Segment information

Accounting policy

Operational Segment is a component of an entity:

a) That develops business activities that can obtain revenue and incur in costs (including revenue and costs related with transactions with other components of the same entity);

b) Whose operating results are regularly reviewed by the entity's chief operating decision maker for the purpose of making decisions about allocating resources to the segment and assessing its performance; and

c) For which distinct financial information is available.

All the accounting policies in the segment reporting are coherently used within the Group. All the inter-segmental revenues are at market prices and are eliminated in the consolidation.

Operating segments

The Group, as at 31 December 2021, is comprised by Galp Gás Natural Distribuição, S.A. and its subsidiaries that develop their activities in the distribution and commercialisation of natural gas on a last resort basis.

The Natural Gas operational segment encompasses the areas of distribution and commercialisation of natural gas on a last resort basis (Note 25 for further details on the Gas activity).

In respect of the segment “Others”, the Group considered the holding Galp Gás Natural Distribuição, S.A..

The financial information of the segments identified above, as at 31 December 2021 and 2020, is presented as follows:

Unit: € k

	Consolidated		Gas		Other		Consolidation adjustments	
	2021	2020	2021	2020	2021	2020	2021	2020
Sales and services rendered	158 724	155 748	157 950	155 084	24 704	13 671	(23 930)	(13 006)
Cost of sales	(1 946)	(2 632)	(1 946)	(2 632)	-	-	-	-
Other income and expenses	(58 275)	(58 890)	(58 744)	(59 447)	(23 529)	(12 513)	23 998	13 070
EBITDA	98 503	94 227	97 261	93 005	1 175	1 158	68	64
Amortisation, depreciation and impairment losses	(50 438)	(49 600)	(49 305)	(48 595)	(1 133)	(1 005)	-	-
Provisions (net)	(185)	(163)	(185)	(163)	-	-	-	-
EBIT	47 881	44 464	47 771	44 246	42	154	68	64
Earnings from associates	-	70	-	-	-	-	-	-
Other Financial income and expenses	(10 135)	(10 199)	-	-	-	-	-	-
Income tax	(10 261)	(8 507)	-	-	-	-	-	-
Energy Sector Extraordinary Contribution	(11 930)	(11 915)	-	-	-	-	-	-
Consolidated net income, of which:	15 555	13 913	-	-	-	-	-	-
Attributable to non-controlling interests	743	645	-	-	-	-	-	-
Attributable to shareholders of Galp Gas Natural Distribuição S.A.	14 811	13 267	-	-	-	-	-	-
OTHER INFORMATIONS								
Segment assets (1)								
Investments in subsidiaries and associates (2)	2 278	2 282	3	3	2 275	2 275	-	-
Other assets	1 326 415	1 355 839	1 274 002	1 308 042	213 527	201 689	(161 114)	(155 050)
Segment assets	1 328 694	1 358 121	1 274 005	1 308 045	215 802	203 964	(161 114)	(155 050)
of which rights-of-use of assets	11 499	12 309	6 509	6 978	4 991	5 331	-	-

1) Net amount
2) Accounted for at the equity method (including Goodwill and other financial assets)

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The main inter-segmental services rendered transactions refer to back-office and management services.

In a context of related parties, similar to what happens between independent companies that carry out transactions with each other, the conditions on which their commercial and financial relations are based are governed by market mechanisms.

The assumptions underlying the determination of prices in transactions between the Group's Companies are based on the consideration of the economic realities and characteristics of the situations under consideration, that is, on the comparison of the characteristics of the operations or of the companies likely to have an impact on the conditions inherent to commercial transactions under analysis. In this context, the goods and services traded, the functions exercised by the parties (including the assets used and the risks assumed), the contractual clauses, the economic situation of the parties as well as the respective business strategies are analysed, among others.

The remuneration, in a context of related parties, thus corresponds to that which is, as a rule, adequate to the functions exercised by each intervening company, considering the assets used and the risks assumed. Thus, and in order to determine this remuneration, the activities carried out and the risks assumed by the companies within the value chain of the goods / services they transact are identified, according to their functional profile, namely with regard to the functions they carry out - distribution and marketing.

In short, market prices are determined not only by analysing the functions that are performed, the assets used and the risks incurred by an entity, but also bearing in mind the contribution of these elements to the company's profitability. This analysis involves verifying whether the profitability indicators of the companies involved fall within the ranges calculated based on the assessment of a panel of functionally comparable, but independent companies, thus allowing prices to be fixed with a view to respecting the principle of fair competition.

The reconciliation between segment information and Statement of income for 2021 and 2020 is as follows:

Unit: € k

Segment information	2021	2020	Statement of income	2021	2020
Sales and services rendered	158 724	155 748	Sales	3 416	4 628
			Services rendered	155 308	151 120
Cost of sales	(1 946)	(2 632)	Cost of sales	(1 946)	(2 632)
Other income and expenses	(58 275)	(58 890)	Other operating Income	40 690	35 009
			Supplies and external services	(44 877)	(46 305)
			Staff costs	(22 633)	(21 929)
			Impairment losses on accounts receivables	(30)	(66)
			Other operating costs	(31 426)	(25 598)
EBITDA	98 503	94 227	Operating Income before Amortisations and provisions	98 503	94 227
Amortisation, depreciation and impairment losses	(50 438)	(49 600)	Amortisation, depreciation and impairment losses on fixed and right-of-use assets	(50 438)	(49 600)
Provisions (net)	(185)	(163)	Provisions (net)	(185)	(163)
EBIT	47 881	44 464	Operating Income	47 881	44 464
Earnings from associates	-	70	Earnings from associates	-	70
Financial income and expenses	(10 135)	(10 199)	Financial income and expenses	(10 135)	(10 199)
Income tax	(10 261)	(8 507)	Income tax	(10 261)	(8 507)
Energy Sector Extraordinary Contribution	(11 930)	(11 915)	Energy Sector Extraordinary Contribution	(11 930)	(11 915)
Consolidated net income for the year	15 555	13 913	Consolidated net income for the year	15 555	13 913

5 Tangible assets

Accounting policy

Recognition

Tangible assets acquired up to 1 January 2010 (date of transition to IFRS) are recorded under the option provided for in IFRS 1 at their deemed cost, which corresponds to the acquisition cost, revalued, when applicable, in accordance with the legal provisions on 1 January 2004, date of the first adoption of IFRS in the financial statements of the parent entity that owned the Company at the time, less accumulated depreciation and eventual impairment losses.

Tangible assets acquired after that date are stated at cost, less accumulated depreciation and impairment losses. The acquisition cost includes the purchase amount, plus transport and assembly costs and financial costs incurred during the construction phase.

Tangible assets in progress reflect assets that are still under construction and are recorded at acquisition cost less any impairment losses, depreciated from the moment the investment projects are substantially completed or ready for use.

Depreciation is calculated on the deemed cost (for acquisitions until 1 January 2010) or on the acquisition cost, using the straight-line method, applied from the date on which the assets are available to be used as intended by management. It is used among the most appropriate economic rates, those that allow the reinstatement of the property, during its estimated useful life, considering, where applicable, the concession period.

The average effective annual depreciation rate used for Buildings and other constructions is 2% for 2021 and 2020.

The capital gains or losses resulting from the sale or write-off of tangible assets are determined by the difference between the sale price and the net book value on the date of sale/write-off. The net book value includes accumulated impairment losses. The recorded capital gains and losses are recorded in the consolidated statement of income under Other operating income or Other operating costs, respectively.

Costs for repairs and maintenance of a current nature are recorded as expenses for the year in which they are incurred. Major repairs related to the replacement of parts of equipment or other tangible assets are recorded as tangible assets, if the replaced component is identified and written off, and depreciated at rates corresponding to the residual useful life of the respective main fixed assets.

Impairment

Impairment tests are carried out whenever a devaluation of the asset in question is identified. In cases where the amount at which the asset is recorded is greater than its recoverable amount, an impairment loss is recognised, which is recorded in the consolidated statement of income under the item of depreciation, depreciation, impairment losses of assets and right-of-use of assets.

The recoverable amount is the higher of the net selling price and the value in use. The net selling price is the amount that would be obtained from the sale of the asset, in a transaction between independent and knowledgeable entities, less costs directly attributable to the sale. The value in use is determined by updating the estimated future cash flows of the asset over its estimated useful life. The recoverable amount is estimated for the asset or cash-generating unit to which it may belong. The discount rate used to update discounted cash flows reflects the GGND Group's Weighted Average Cost of Capital (WACC).

The projection period of the cash flows varies according to the average useful life of the cash generating unit.

Unit: € k

	Land, natural resources and buildings	Basic equipment	Assets under construction	Total
As at 31 December 2020				
Acquisition cost	938	-	-	938
Accumulated depreciation	(469)	-	-	(469)
Net amount	469	-	-	469
As at 31 December 2021				
Acquisition cost	938	-	-	938
Accumulated depreciation	(488)	-	-	(488)
Net amount	450	-	-	450

Unit: € k

	Land, natural resources and buildings	Basic equipment	Assets under construction	Total
Balance as at 1 January 2020	488	426	3	917
Depreciation and impairment	(19)	(29)	-	(48)
Other adjustments	-	(397)	(3)	(400)
Balance as at 31 December 2020	469	-	-	469
Balance as at 1 January 2021	469	-	-	469
Depreciation and impairment	(19)	-	-	(19)
Balance as at 31 December 2021	450	-	-	450

6 Intangible assets

Accounting policy

Intangible assets are stated at acquisition cost, less accumulated amortisation and impairment losses. Intangible assets are only recognised if they are identifiable, and if they are likely to result in future economic benefits for the Group and are controllable and measurable with reliability.

Development expenses are only recorded as intangible assets if the Group demonstrates technical and economic capacity, as well as a decision to complete that development and start its commercialisation or own use, and also demonstrates the probability of the asset generating future economic benefits. If expenses do not meet these requirements, development expenses are recorded as a cost for the year in which they are incurred.

Research expenses are recognised as a cost for the year.

Intangible assets with finite useful lives are amortised using the straight-line method.

Amortisation rates vary according to the terms of existing contracts or the expected use of the intangible asset.

With the application of IFRIC 12, GGND classifies the Natural Gas assets that are the subject to the concession and exploration license, and whose remuneration is controlled by ERSE, in accordance with the Intangible Asset Model. Thus, tangible assets of companies with regulated activity are classified as intangible assets, under the heading of Concession Services Agreements, being amortised over their economic useful lives using the straight-line method applicable as from the date of deployment using among the most appropriate economic rates, those that allow the asset to be reinstated, during the estimated useful life or according to the terms of existing contracts or the expected use.

According to the Concession Contracts and Licences signed with the Portuguese State, and currently in force, when the concessions contracts/licenses period reaches its end or if they are extinguished, the transmission of the infra-structures and other means related to the concession to the State occurs, and the concessionaire, unless the law relieves the State from this obligation, will be paid an indemnity corresponding to the book value of the intangible assets net of amortisations and co-payments. The book value of the net intangible assets at the end of the Concession Agreements or Licenses, may be considered as a financial asset (Mixed Model under IFRIC 12) at that moment. This amount is recognised as at 31 December 2021 as Intangible assets, based on Management’s best estimate regarding the effective amounts recovery, and considering the definition by ERSE for assets remuneration.

Usage rights on infrastructures related to gas, namely gas distribution networks, are being amortised over the period of 45 years.

The Group capitalises the expenses related to the conversion of consumption to gas that are reflected in the adaptation of facilities. The Group considers that it is able to control the future economic benefits of these reconversions through the continuous distribution / sale of gas provided for in Decree-Law 140/2006, of 26 July. These expenses are amortised by the straight-line method until the end of the concession period attributed to the natural gas distribution companies.

Impairment

See Note 5.

By the IFRIC 12 application, the regulated assets subject to the public concession of infrastructure to private individuals were transferred to the headings "Concession agreements" and "Assets under construction – concession agreements", as shown below:

Unit: € k

				Concession agreement					
	Lands	Buildings	Basic equipment	NG consumption reconversion	Assets under construction	Other concession agreements	Total concession Agreement	Other intangible assets	Total
As at 31 December 2020									
Acquisition cost	12 673	12 222	1 340 811	619 518	1 424	25 643	2 012 290	2 105	2 014 395
Accumulated amortisation	(4 576)	(7 212)	(559 644)	(267 244)	-	(23 756)	(862 432)	(1 263)	(863 695)
Net amount	8 097	5 010	781 167	352 274	1 424	1 886	1 149 858	842	1 150 700
As at 31 December 2021									
Acquisition cost	12 703	12 238	1 363 446	632 193	1 706	18 610	2 040 897	4 556	2 045 454
Accumulated amortisation	(4 844)	(7 552)	(593 349)	(285 982)	-	(17 405)	(909 133)	(2 037)	(911 171)
Net amount	7 860	4 686	770 097	346 211	1 706	1 205	1 131 764	2 519	1 134 283

Unit: € k

				Concession agreement					
	Lands	Buildings	Basic equipment	NG consumption reconversion	Assets under construction	Other concession agreements	Total concession Agreement	Other intangible assets	Total
Balance as at 1 January 2020	8 364	5 321	791 704	364 604	2 696	2 059	1 174 750	684	1 175 433
Additions	-	-	1 545	250	22 875	241	24 911	925	25 837
Amortisations	(267)	(369)	(30 799)	(15 822)	-	(749)	(48 007)	(614)	(48 621)
Write-offs	-	-	(1 438)	(349)	-	(10)	(1 796)	-	(1 796)
Other adjustments (Transfers)	-	58	20 155	3 591	(24 148)	345	-	(153)	(153)
Balance as at 31 December 2020	8 097	5 010	781 167	352 274	1 424	1 886	1 149 858	842	1 150 700
Balance as at 1 January 2021	8 097	5 010	781 167	352 274	1 424	1 886	1 149 858	842	1 150 700
Additions	-	-	-	-	30 781	-	30 781	2 451	33 232
Amortisations	(267)	(346)	(31 326)	(16 054)	-	(788)	(48 782)	(774)	(49 556)
Write-offs	-	-	(87)	-	-	(6)	(93)	-	(93)
Other adjustments (Transfers)	30	21	20 344	9 991	(30 498)	112	-	-	-
Balance as at 31 December 2021	7 860	4 686	770 097	346 211	1 706	1 205	1 131 764	2 519	1 134 283

The additions for the year ended 2021, in the amount of €30 781 k (2020: €24 911 k) mainly refer to assets related to the construction of gas infrastructures and investments in the gas consumption reconversion (Notes 25 and 26). The additions of Other intangible assets mainly refer to information systems (IT).

7 Leases

Accounting policy

Recognition

The Group recognises both a right-of-use asset and a lease liability as at the lease commencement date. The right-of-use asset is initially measured at cost, which represents the initial amount of the lease liability, adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred, plus an estimate of the costs required to dismantle and remove the underlying asset or restore the site on which it is located (if applicable), less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that have not yet been paid up to the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot readily be determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability includes the following:

- Fixed payments, including in kind fixed payments;
- Variable lease payments that are pegged to an index or a rate;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Company is reasonably certain to be able to exercise; and
- penalties for the early termination of a lease, unless the Company is reasonably certain not to terminate it early.

The lease liability is remeasured when there are changes in the amounts of future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities in a separate line in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have lease terms of 12 months or less, and leases of low-value assets. The Group recognises the lease payments associated with these leases as expenses on a straight-line basis over the lease term.

Depreciation

The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined as those used for the property and equipment items.

Impairment

The right-of-use assets are reduced by eventual amounts of impairment losses and adjusted to reflect certain remeasurements of the respective lease liabilities.

Accounting estimates and judgments

Useful lives, residual values of intangible assets and discount rates

The calculation of the assets' residual values, the estimation of the useful lives, and the discount rates used are based on the assumptions of the lease contracts (or for similar assets) and are set based on Management's judgment, as well as the practices of its peers in the industry.

Impairment of Right-of-use Assets

Identifying impairment indicators, estimating future cash flow and determining the fair value of assets requires Management to use significant judgment in terms of the identification and evaluation of the different impairment indicators, the expected cash flow, the applicable discount rates, useful lives and residual amounts.

The details of right-of-use assets are as follows:

Unit: € k

	Buildings	Other rights-of-use	Total
As at 31 December 2020			
Acquisition cost	13 508	648	14 156
Accumulated depreciation	(1 504)	(343)	(1.847)
Net amount	12 004	306	12 309
As at 31 December 2021			
Acquisition cost	13 537	477	14 014
Accumulated depreciation	(2 211)	(304)	(2 515)
Net amount	11 326	174	11 499

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The movements occurred during the period are as follows:

Unit: € k

	Buildings	Other rights-of-use	Total
Balance as at 1 January 2020	13 606	309	13 915
Additions	-	211	211
Depreciations	(731)	(200)	(931)
Other adjustments	(871)	(15)	(886)
Balance as at 31 December 2020	12 004	306	12 309
Balance as at 1 January 2021	12 004	306	12 309
Additions	-	34	34
Depreciations	(707)	(156)	(863)
Write-offs	-	18	18
Other adjustments	30	(28)	1
Balance as at 31 December 2021	11 326	174	11 499

Lease liabilities are as follows:

Unit: € k

	2021	2020
Maturity analysis – contractual undiscounted cash flow	15 003	17 005
Less than one year	1 030	1 083
One to five years	3 788	3 854
More than five years	10 186	12 069
Lease liabilities included in the consolidated statement of financial position	12 027	12 702
Current	1 015	1 068
Non-current	11 012	11 635

In addition to the depreciations of the rights-of-use for the year shown in the first table of this note, the amounts recognised in the consolidated statement of income for the year present the following detail:

Unit: € k

	Notes	2021	2020
		1 072	982
Lease interests	28	354	383
Expenses related to short term, low value and variable payments of operating leases [1]		717	599

[1] Includes variable payments and short-term leases recognised under the heading Transport of goods.

The amounts recognised in the consolidated statement of cash flow are as follows:

Unit: € k

	2021	2020
Financing activities	1 083	1 151
Payments relating to leases	728	767
Payments relating to lease interests	354	384

8 Government grants

Accounting policy

Government grants are recorded at fair value when there is certainty that they will be received and that the Group will comply with the conditions required for them to be granted. The investment grants for tangible and intangible assets are recorded in deferred income as a liability and recognised in the Consolidated statement of income as operating income, in proportion to the amortisation of the granted assets.

The amounts recognised in the financial statement related to grants are as follows:

Unit: € k

	Notes	2021	2020
Programmes		427 671	427 671
Energy Program (“Programa Energia”)		103 689	103 689
Protede		19 708	19 708
Operational Economy Program (“Programa Operacional Economia“)		303 393	303 393
Proalgarve-FEDER		882	882
Accumulated amount recognised as income		(222 137)	(213 144)
Amount to be recognised	16	205 534	214 527

During the year ended 31 December 2021, an amount of €8 927 k (2020: €8 950 k) was recognised in the consolidated statement of income, and which includes €65 k that refers to the regularisation of the 2020 fiscal year of the subsidiary Tagusgás - Empresa de Gás do Vale do Tejo, S.A. (Note 25).

9 Goodwill

Recognition

The differences between the investee’s acquisition cost and the fair value of the identifiable assets and liabilities of the acquired entities at the acquisition date, if positive, are recorded within goodwill. The negative differences are recognised immediately in the statement of income.

The difference between the payment amount of the participation in the Group companies and the fair value of their equity was, in 31 December 2021 and 2020 as follows:

Unit: € k

	2021	2020
	2 275	2 275
Duriensegás - Soc Distrib. de Gás Natural do Douro, S.A.	1 640	1 640
Lusitaniagás - Companhia Gás do Centro, S.A.	585	585
Beiragás - Companhia Gás das Beiras, S.A.	50	50

Goodwill impairment analysis

In the Goodwill impairment analysis, the carrying value of Goodwill is allocated to the respective cash generating unit (CGU). The recoverable amount of Goodwill is estimated based on the value in use, which is determined by updating the estimated future cash flows of the cash generating unit. The recoverable amount is estimated for the cash generating unit to which it may belong, according to the discounted cash flow method. The discount rate used to update discounted cash flows reflects the Group's Weighted Average Cost of Capital (WACC) for the business segment to which the cash generating unit belongs to.

Cash generating unit	Valuation Model	Cash flows	Discount rates	
			2021	2020
Financial Investments (included in the concession period)	DCF (Discounted Cash Flow) or RAB	In accordance with the budget for 2022 and the four-year strategic plan	5.6%	5.6%

The demand and consumption of natural gas has been steady through the years. There is no evidence of impairment. The core business of the GGND Group is regulated and, as a result, the impairment analysis is based on Regulatory Asset Base (RAB).

10 Investments in associates

Not applicable.

11 Inventories

Accounting policy

Inventories (merchandise, raw and subsidiary materials, finished and semi-finished goods, and products and work in progress) are stated at acquisition cost (in the case of merchandise and raw and subsidiary materials) or production cost (in the case of finished and semi-finished goods and products and work in progress) or at the net realisable value, whichever is the lower.

The net realizable value corresponds to the normal selling price less costs to complete production and to sell.

Whenever the cost exceeds the net realizable value, the difference is recorded in operating costs as part of the Cost of sales.

Inventories are as follows at 31 December 2021 and 31 December 2020:

Unit: € k

	2021	2020
	1 810	2 097
Raw, subsidiary and consumable materials	1 890	2 174
Goods	8	8
Decrease in inventories	(88)	(84)

As at 31 December 2021, raw, subsidiary and consumables materials, in the amount of €1 890 k (2020: €2 174 k), essentially corresponds to materials to be used in the construction of the Group's infrastructure.

Goods, in the amount of €8 k (2020: €8 k), corresponds essentially to natural gas held in the regasification units ("UAG").

The change in Decrease in inventories in the amount of €3 k was recognised in operating costs in the statement of income (Note 26).

12 Trade and other receivables

Accounting policy

Accounts receivable are initially recorded at fair value and subsequently measured at amortised cost, less any impairment losses, recognised in Impairment losses on accounts receivables. Usually, the amortised cost of these assets does not differ from their nominal value or their fair value.

Trade and Other receivables are derecognised when the contractual rights to the cash flow expire (i.e., they are collected), when they are transferred (e.g., sold) or when they are impaired.

Accounting estimates and judgments

Impairment of accounts receivable

The Group applies the IFRS 9 simplified approach to measure expected credit losses, which uses the lifetime expected losses for all accounts receivable. Accounts receivable were grouped by business segment (common credit risk characteristics) for the purpose of assessing the expected credit losses. The credit risk of the accounts receivable balance is evaluated at each reporting date, taking into consideration the clients' credit risk profiles. The credit risk analysis is based on the annual probability of default and considers the clients' credit risk profiles. The probability of default represents an annual probability of default, reflecting the current and projected information and considering macroeconomic facts.

Accounts receivable are adjusted for Management's estimate of the credit risks as at the statement of financial position date.

Credit risk

For credit risk purposes, if trade and other receivables are independently rated, these ratings are used. Otherwise, if there is no independent rating, the credit risk assessment considers the credit quality of the client, considering its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings, in accordance with limits set by Management. Clients' compliance with credit limits is regularly monitored by Management.

For further credit risk mitigation, bank guarantees and insurance policies for eventual credit defaults are a standard part of the Group's overall risk policy.

Trade receivables

The caption Trade receivables, on 31 December 2021 and 2020, presented the following detail:

Unit: € k

		2021	2020
		10 696	10 626
Trade receivables		11 522	11 377
Allowance for doubtful accounts		(826)	(751)
Ageing of trade receivables	Exposure to risk	10 696	10 626
Not yet due	Low	9 840	6 202
Overdue up to 180 days	Medium	346	3 433
Overdue between 181 days and 365 days	High	88	389
Overdue over 365 days	Very High	422	602

Movements in allowance for doubtful accounts			
Allowance at the beginning of the year		751	1 060
Increase	26	118	114
Decrease	26	(43)	(62)
Utilisation		-	(225)
Other adjustments		-	(136)
Allowance at the end of the year		826	751

Other receivables

The caption Other receivables, on 31 December 2021 and 2020, presented the following detail:

Unit: € k

	2021		2020	
	Current	Non-current	Current	Non-current
	68 406	14 237	59 141	25 831
State and other public entities	-	-	1	-
Other debtors	26 272	3 453	17 238	4 506
Subsoil occupation levies	19 930	3 453	15 317	4 506
Other receivables/other debtors	6 342	-	1 921	-
Contract assets	40 613	10 743	41 376	21 299
Sales and services rendered but not yet invoiced	14 551	-	15 660	-
Tariff deviation – pass-through	10 379	-	12 022	-
Tariff deviation – core activities	15 380	10 743	13 255	21 299
Other accrued income	303	-	439	-
Deferred charges	1 602	40	562	26
Other deferred charges	1 602	40	562	26
Impairment of other receivables	(81)	-	(36)	-

The Subsoil occupation levies amount of €23 383 k differs from the presented in Note 29 (€23 377 k) due to an amount to be returned to the Municipality, arounding €6 k by Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.

The change in the caption Other receivables/other debtors is mainly due to advance payments to suppliers at the end of 2021.

The pass-through tariff deviations refer to the remuneration of the network access charges related to the global use of the system ("UGS") and use of the transport networks ("URT"), paid to third parties, corresponding to the difference between the amount paid by the Group and the amount billed to customers, duly accrued so that the impact on the Consolidated statement of income for these functions is nil.

The change in total impairments reflected in the consolidated income statement is €30 k (Note 26), is detailed as follows: Trades receivables: €118 k increase and €43 k decrease and Other receivables: €45 k decrease.

The change in the Impairment of Other receivables is explained by the decrease mentioned above, as well as, by other adjustments that corresponds to the amount of €91 k.

The breakdown of the tariff deviation – core activities (gas distribution activities and gas trading activities) is detailed below:

Unit: € k

	2020	Change	2021
"ORD" – Gas Distribution Activity (ADG)			
2018	3 948	(3 948)	-
Increases	3 175	-	3 175
Adjustment	(3 551)	(177)	(3 727)
Reversal	4 324	(3 772)	553
2019	26 426	(14 031)	12 396
Increases	24 032	-	24 032
Adjustment	(331)	(14 465)	(14 796)
Reversal	2 726	435	3 160
2020	(8 145)	12 658	4 513
Increases	(8 145)	-	(8 145)
Adjustment	-	12 658	12 658
2021	-	6 308	6 308
Increases	-	6 308	6 308
Tariff deviation – "ADG"	22 229		23 217
Contract assets	34 498		25 993
Accrued costs	(12 269)		(2 776)

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Unit: € k

	2020	Change	2021
"CURR" - Gas Commercialisation Activity (FCG)			
2018	(869)	869	-
Increases	(920)	-	(920)
Reversal	51	869	920
2019	(1 318)	(843)	(2 162)
Increases	(1 343)	-	(1 343)
Reversal	25	(843)	(818)
2020	(137)	73	(64)
Increases	(137)	(3)	(140)
Reversal	-	77	77
2021	-	7	7
Increases	-	7	7
Tariff deviation – "FCG"	(2 324)		(2 219)
Contract assets	56		130
Accrued costs	(2 380)		(2 349)

The accrued costs are included in the caption Other payables (Note 16).

13 Other financial assets

Unit: € k

	2021	2020
	Non-current	Non-current
	3	7
Financial assets at fair value through other comprehensive income	3	3
Other financial assets	-	4

14 Cash and cash equivalents

Accounting policy

The amounts included in Cash and cash equivalents correspond to cash values, bank deposits, time deposits and other treasury applications with maturities of less than three months at the issue date, and which can be immediately mobilised with an insignificant risk of change in value.

For the purposes of the Consolidated Statement of Cash Flow, Cash and cash equivalents also include bank overdrafts recorded in the caption Financial debt in the statement of financial position.

As at 31 December 2021 and 2020, Cash and cash equivalents' details are as follows:

Unit: € k

	2021	2020
	67 484	76 879
Cash and cash equivalents	67 484	76 879

15 Financial debt

Accounting policy

Loans are recorded as liabilities at the nominal value received, net of the expenses incurred on the issuance of these loans. Loans are subsequently measured at amortised cost.

Financial charges are calculated at the effective interest rate and recorded in the consolidated statement of income on an accruals basis in accordance with each loan agreement.

Financial charges include interest on financing and, eventually, commission expenses on the structuring of loans.

Financial Debt as at 31 December 2021 and 31 December 2020 are as follows:

Unit: € k

		2021		2020
	Current	Non-current	Current	Non-current
	1 042	673 969	1 098	674 308
Bank loans	1 042	5 208	1 098	6 249
Origination fees	-	(1)	-	(1)
Loans and commercial paper	1 042	5 208	1 098	6 250
Bonds and notes	-	668 762	-	668 059
Origination fees	-	(1 238)	-	(1 941)
Bonds and Notes	-	670 000	-	670 000

The average interest rate on loans, including bank overdraft costs, supported by the Group in 2021 and 2020, amount to 1.35% and 1.44%, respectively.

Current and non-current loans, excluding origination fees and bank overdrafts, have the following repayment plan as at 31 December 2021:

Unit: € k

Maturity			Loans
	Total	Current	Non-current
	676 251	1 042	675 208
2022	1 042	1 042	-
2023	601 042	-	601 042
2024	71 042	-	71 042
2025 and thereafter	3 125	-	3 125

Changes in the financial debt during the period ended 31 December 2021 are as follows:

Unit: € k

	Initial balance	Repayment of the principal	Other	Final balance
	675 405	(1 042)	646	675 011
Bank loans	7 346	(1 042)	(56)	6 249
Origination fees	(1)	-	-	(1)
Bank loans	7 292	(1 042)	-	6 250
Other loans	56	-	(56)	-
Bonds and Notes	668 059	-	703	668 762
Origination fees	(1 941)	-	703	(1 238)
Bonds and *Notes*	670 000	-	-	670 000

For comparative information, please refer to the financial statements for the year ended 31 December 2020.

Description of main loans

Bank loans - Other

In December 2005 it was celebrated, by Beiragás - Companhia de Gás das Beiras, S.A., a financial contract under a Project Finance regime that includes a credit line for investment until the maximum amount of €27 000k (Instalment A) which could be use until December 2008 and an operating credit line until the maximum amount of €4 000k (Instalment B) which could be reimbursed until December 2012, being this term extent until 31 December 2013.

In 2017, an amendment to the previously mentioned contract was signed, and the following was amended: i) Agent Bank; ii) reimbursement plan of Instalment A (repaid in 36 consecutive half-yearly instalments, from 15 June 2010 until 15 December 2027) and iii) the margin.

The outstanding amount of the loan bears interest at Euribor 6M plus a margin, which varies over the repayment period.

As at 31 December 2021, the outstanding amount of the investment credit line was €6 250 k, comprised of €6 208 k classified as non-current and €1 042 k classified as current.

Revolving Credit Facility

As at 31 December 2020, the Company has contracted a Revolving Credit Facility, with an underwriting commitment in the total amount of €50 000 k and with a maturity of less than 1 year. This amount was fully available as at 31 December 2021.

Bond loan

As of 1 August 2019, the Company issued bonds to the amount of €70 000 k with an interest rate of 0.6% + Euribor 6M. This bond loan will be totally reimbursed on 1 August 2024.

Notes issuance - Galp Gás Natural Distribuição, S.A.

Galp Gás Natural Distribuição, S.A. established on 25 August 2016, an EMTN Program (“EUR 1,000,000,000 Euro Medium Term Note Programme”).

Under the EMTN program, on 19 September 2016, the Company issued notes in the amount of €600 000 k, ending in 19 September 2023 and with a coupon of 1.375%, to be traded in the London Stock Exchange regulated market. The Notes market value as at 31 December 2021 is €613 716 k.

JP Morgan, BofA Merrill Lynch and Banco Santander Totta acted as Joint-Bookrunners

Under these programs (Bond loan and EMTN), a set of financial ratios (“Financial Covenants”) have been set and they represent an increased level of protection for GGND Group creditors. These ratios, called Net Debt/EBITDA (“ND/E”) and Debt Service Coverage Ratio (“DSCR”) have two limits - one in the form of a lock-up event and the other in the form of an event of default. As at 31 December 2021 the ratios are as follows:

Financial ratios	2021
Net Debt [1]/Ebitda [2]	6.2x
Debt Service coverage ratio [3]	3.6x

[1] Bank debt + Bank loan + loan interest- Cash and cash equivalents
[2] EBITDA + Provisions
[3] Operating activities cash flow, excluding CESE - Payment CAPEX/Interests paid

It is important to highlight that these ratios, as at 31 December 2021 and 2020, were within the established limits.

16 Trade and other payables

Accounting policy

Trade payables and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method. Usually the amortised cost does not differ from the nominal value.

On 31 December 2021 and 31 December 2020, Trade and Other payables non-current and current is presented as follows:

Unit: € k

		2021		2020	
	Notes	Current	Non-current	Current	Non-current
Trade payables		8 381	-	9 216	-
Other payables		44 185	197 415	41 638	215 830
State and other public entities		4 398	-	5 033	-
Payable VAT		3 508	-	4 073	-
"ISP" - Tax on oil products		126	-	107	-
Other taxes		764	-	854	-
Other payables		7 345	-	7 290	-
Tangible and intangible assets suppliers		7 326	-	7 267	-
Other Creditors		20	-	23	-
Related parties		137	-	130	-
Other accounts payables		2 166	-	2 328	-
Accrued costs		20 370	1 091	17 134	10 513
External supplies and services		4 429	-	2 251	-
Payable remuneration		6 891	-	4 778	-
Tariff deviation - core	12	4 033	1 091	4 136	10 513
Tariff deviation - pass through		1 812	-	2 850	-
Other accrued costs		3 205	-	3 119	-
Other deferred income		9 768	196 324	9 722	205 316
Government grants	8	9 210	196 324	9 210	205 316
Other deferred income		557	-	512	-

17 Income taxes

Accounting policy

Current Income tax is calculated based on the taxable results of the companies included in the consolidation in accordance with the applicable tax rules in each geographical area in which the GGND Group operates.

Deferred taxes are calculated based on the liability method and reflect the temporary differences between the amounts of assets and liabilities recorded for accounting purposes and their amounts for tax purposes.

Deferred tax assets and liabilities are calculated and reviewed annually using the tax rates expected to be in force when the temporary differences revert.

Deferred tax assets and liabilities are recorded only when there is reasonable expectation of enough future taxable income to use them or whenever there are taxable temporary differences that offset the deductible temporary differences in the period they revert. Temporary differences underlying deferred tax are reviewed at each statement of financial position date in order to recognise deferred tax assets or liabilities that were not recorded in prior years as they did not fulfil all requisites and/or to reduce the amounts of deferred tax assets or liabilities recorded based on the current expectation of their future recovery.

Deferred taxes are recorded in the statement of income for the year, unless they result from items recorded directly in equity, in which case the deferred tax is also recorded in equity.

The Companies that are part of the GGND Group for over 1 year and whose participation percentage is 75% or more, and as long as such participation gives more than 50% of the voting right, they are taxed in accordance with the special regime for the taxation of groups of companies (“RETGS”). With reference to 1 January 2021, the fiscal result of the GGND Group is determined in the sphere of Galp Gás Natural Distribuição, S.A. (previously determined in the sphere of Galp Energia SGPS S.A.). The average tax rate applied to companies based in Portugal was 25%.

As at 31 December 2021 and 2020, the income tax payable is as follows:

Unit: € k

		Liabilities
	2021	2020
	(1 217)	(3 889)
State and other public entities	(1 124)	(388)
Galp Energia, SGPS, S.A.	(94)	(3 501)

As of 31 December 2021 and 31 December 2020, the amount of income tax is as follows:

Unit: € k

			2021			2020
	Current tax	Deferred tax	Total	Current tax	Deferred tax	Total
Income tax	10 101	160	10 261	10 565	(2 059)	8 507
Income tax for the period	10 101	160	10 261	10 565	(2 059)	8 507

The effective income tax rate as at 31 December 2021 and 2020, is as follows:

	2021	2020
Effective income tax rate	27.18%	24.78%
Income tax rate	25.00%	25.00%
Equity method	-	0.05%
Tax rate differences	0.77%	0.62%
(Excess)/insufficiency of estimated income tax	(0.64%)	(0.62%)
Autonomous taxation	0.68%	0.82%
Other increases and deductions	1.37%	(1.08%)

The change in the item Other increases and deductions is mainly due to expenses with social utility activities carried out by the Group, as well as the temporary differences shown in the table below.

As at 31 December 2021 and 31 December 2020, the deferred tax assets and liabilities balances is as follows:

Unit: € k

	1 January 2021	Impact on the statement of income	Impact on equity	Other changes	31 December 2020
Deferred taxes – Assets	17 788	38	(274)	-	17 551
Adjustments to tangible and intangible assets	4	(1)	-	-	4
Retirement benefits and other benefits	13 339	(1 920)	(274)	-	11 145
Tariff deviation	3 243	340	-	-	3 583
Non-deductible provisions	1 201	1 619	-	-	2 819
Deferred taxes – Liabilities	(19 471)	(198)	-	74	(19 596)
Adjustments to tangible and intangible assets fair value	(10 253)	382	-	-	(9 871)
Tariff Deviation	(8 292)	(625)	-	74	(8 844)
Others	(926)	45	-	-	(881)

For comparative information, please refer to the financial statements for the year ended 31 December 2020.

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Head Office: Rua Tomás da Fonseca Torre C, 1600-209 Lisboa
Share Capital: 89 529 141 Euros
MCRC / NIPC 509 148 247

18 Post-employment and other employee benefit liabilities

Accounting policy

Defined-contribution plans

The Group has a defined-contribution plan funded by a pension fund which is managed by independent entities. The Group contributions to the defined-contribution plan are charged to the statement of income in the relevant year.

Defined-benefit plans

The Group has a defined-benefit plan that provides the following benefits: pension supplements for retirement, disability and surviving orphans; pre-retirement; early retirement; retirement bonuses; and voluntary social insurance.

The payment of pension supplements for old age and disability, as well as survivors' pensions, is funded by a pension fund managed by independent entities.

Recognition of defined-benefit plans

The costs for the year for defined-benefit plans are determined using the projected unit credit method. This reflects services rendered by employees as at the valuation dates, and is based on actuarial assumptions, primarily regarding the discount rates used to determine the present value of benefits and the projected rates of remuneration growth. The discount rates are based on the market yields of high-rated corporate bonds in the respective country. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income during the period in which they arise. Past service costs are recognised immediately in the statement of income.

Where a plan is unfunded, a liability for the retirement benefit obligation is recognised in the statement of financial position. Costs recognised for retirement benefits are included in staff costs. The net obligation recognised in the statement of financial position is reported within non-current liabilities.

Other retirement benefits

Along with the plans, the Company provides additional benefits related to healthcare, life insurance and a minimum defined-benefit plan (for disability and survival).

Accounting estimates and judgments

Demographic and financial assumptions used to calculate the retirement benefit liabilities

Accounting for pensions and other post-retirement benefits requires estimates to be made when measuring the group's pension plan surpluses and deficits. These estimates require assumptions to be made regarding uncertain events, including discount rates, inflation and life expectancy.

Post-employment benefits

Unit: € k

	2021	2020
Liabilities	(62 370)	(66 253)
Net liabilities	**(62 370)**	**(66 253)**
Liabilities	(83 967)	(86 150)
Past services covered by the pension fund	(29 390)	(29 173)
Liabilities related with other benefits	(54 577)	(56 977)
Assets	21 597	19 898

Post-employment obligations

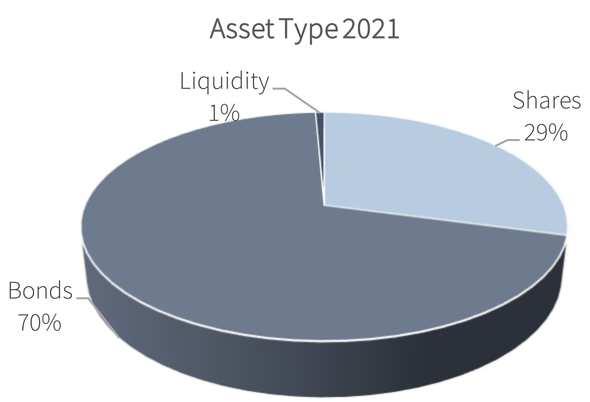
Unit: € k

	2021	2020
Past service liability at the end of the current year	**83 967**	**86 150**
Past service liability at the end of the previous year	86 150	81 690
Current service cost	1 759	1 551
Interest cost	1 101	1 242
Actuarial (gain)/loss	1 030	6 019
Benefit payments made by the fund	(1 443)	(1 604)
Benefit payments made by the Group	(3 096)	(3 460)
Cut back	(1 535)	864
Liquidation	-	(349)
Other Adjustments	2	196

The average maturity of the liabilities under the defined-benefit plans is 11.1 years (11.6 years in 2020).

Unit: € k

	2021	2020
Assets at the end of the current year	**21 597**	**19 898**
Assets at the end of the previous year	19 898	21 395
Net interest	287	362
Associate Contributions	2 100	-
Benefit payments	(1 443)	(1 604)
Financial gains/(losses)	756	(255)



The fair value hierarchy of assets is mostly Level 1 for shares and alternative investments and a uniform combination of Level 1 and 2 for bonds and real estate. Level 1 includes financial instruments valued on the basis of net market prices, e.g. from Bloomberg. Level 2 includes financial instruments valued at prices observable in current liquid markets for the same financial instrument provided by external counterparties, available through Bloomberg.

Post-employment benefit expenses

Unit: € k

	Notes	2021	2020
Current service cost		1 759	1 551
Net interest		813	881
Net cost for the year before special events		2 572	2 432
Cut back impact – Pre-retirement and Early retirement		(1 535)	864
Other adjustments		2	(183)
Net cost for the year of defined-benefit plan expenses		1 039	3 112
Defined-contribution		382	417
Net cost for the year of defined-contribution plan expenses		382	417
Total	27	1 421	3 529

The Cut back impact – Pre-retirement and Early retirement, in the amount of (€1 535 k), refers mainly to termination processes estimates and to the post-employment costs of those processes (pre-retirements implemented and/or in course, early retirements, termination by mutual agreement and estimated compensation for joining the process of transition from a defined-benefit plan to a defined-contribution plan).

Remeasurements

Unit: € k

	Notes	2021	2020
		(558)	(5 105)
Gains recognised through comprehensive income		(284)	(6 278)
(Loss)/Gains from actuarial experience		(71)	(160)
(Loss)/Gains from changes in actuarial assumptions		(958)	(5 859)
Financial gain/(loss)		756	(255)
Other gains/(losses)		(10)	(4)
Income tax related to actuarial gains and losses	17	(274)	1 173

Assumptions

	Retirement benefits		Other benefits	
	2021	2020	2021	2020
Rate of return on assets	1.05%	1.50%	-	-
Technical interest rate	1.05%	1.50%	1.05%	1.50%
Rate of increase of salaries/costs	1.00%	1.00%	[0.00% - 3.00%]	[1.00% - 3.50%]
Rate of increase of pensions	[0.00%-2.00%]	[0.00%-2.00%]	-	-
Mortality table for current staff and pre-retirees	INE 2009-2011	INE 2009-2011	INE 2009-2011	INE 2009-2011
Mortality table for retired staff	INE 2009-2011	INE 2009-2011	INE 2009-2011 | GKF95	INE 2009-2011 | GKF95
Disability table	50% EVK 80	50% EVK 80	50%EVK80	50%EVK80
Normal age for retirement	67 years, except for early retirement cases at 66 years or 65 years if at least with 43 years or 46 years of discounts to Social Security (S.S). at 65 years, respectively	67 years, except for early retirement cases at 66 years or 65 years if at least with 43 years or 46 years of discounts to Social Security (S.S). at 65 years, respectively	67 years, except for early retirement cases at 66 years or 65 years if at least with 43 years or 46 years of discounts to Social Security (S.S). at 65 years, respectively	67 years, except for early retirement cases at 66 years or 65 years if at least with 43 years or 46 years of discounts to Social Security (S.S). at 65 years, respectively
Method	Project credit unit	Project credit unit	Project credit unit	Project credit unit

Stress analysis

Stress analysis of the discount rate

Unit: € k

Discount rate 1.05%		-0.25%
Total	83 967	2 134
Retirement benefits	62 549	1 353
Other benefits	21 418	781

Stress analysis of the growth rate of health insurance costs

Unit: € k

Growth rate of 1.00%	0% in the first 2 years and 3% in the following	Δ -1.00% from 2nd year onwards	Δ+1.00% from 2nd year onwards
Past services	19 977	(2 391)	2 891

19 Provisions

Accounting policy

Provisions are recorded when the Group has a present obligation (legal, contractual or constructive) resulting from a past event and it is probable that an outflow of resources entailing economic benefits will be required to settle that obligation, and a reliable estimate of the obligation amount can be made. Provisions are reviewed and adjusted on each consolidated statement of financial position date to reflect the best estimate at that date.

GGND measures uncertain tax positions (except corporate income tax), namely tax provisions by the most likely outcome and not by probabilities.

During the years ended 31 December 2021 and 2020, the Provision caption presented the following movements:

Unit: € k

	2021			2020
	CESE I	Other provisions	Total	
At the beginning of the year	73 816	3 897	77 713	65 190
Increases	11 930	190	12 120	12 103
Decreases	-	(5)	(5)	(30)
Utilization	(20 572)	-	(20 572)	-
Regularisation	-	-	-	450
At the end of the year	65 174	4 081	69 256	77 713

For comparative information, please refer to the financial statements for the year ended 31 December 2020.

The net increases in Decreases for the year ended 31 December 2021 have the following decomposition:

Unit: € k

	Operational costs (Note 26)	CESE I	Other	Total
2021	190	11 930	(5)	12 115
CESE I	-	11 930	-	11 930
Other provisions	190	-	(5)	185

For comparative information, please refer to the financial statements for the year ended 31 December 2020.

CESE

Since 2014, the Group has been subject to a special tax ("CESE"), under article No. 228 of Law 83C/2013 of 31 December, which states that companies from the energy sector with assets in certain activities are subject to a fee that is levied on the amount of eligible net assets. Due to the fact that the Company contests the application of this contribution, the Group has not proceeded with the respective settlement since 2014, having recorded the total amount of CESE in the Provisions caption and the expense was recognised in results in the respective years.

The decrease of CESE I provision is related to payments made, in the total amount of €20 572 k, by the following companies of the GGND Group:

- Beiragás - Companhia de Gás das Beiras, SA – payment in the amount of €1 877 k, made after the final unfavourable decision of the constitutional court for the years 2014, 2015 and 2016;
- Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A. – payment in the amount of €714 k, made after the final unfavourable decision of the constitutional court for the years 2014 and 2016;
- Lisboagás - Sociedade Distribuidora de Gás Natural de Lisboa, S.A. – payment in the amount of €5 728 k, made after the final unfavourable decision of the constitutional court for the year 2015;
- Lusitaniagás - Companhia de Gás do Centro, S.A. – payment in the amount of €8 904 k, made after the final unfavourable decision of the constitutional court for the years 2014, 2015 and 2016;
- Setgás - Sociedade de Distribuição de Gás Natural, S.A. – payment in the amount of €3 264 k made after the final unfavourable decision of the constitutional court for the years 2014 and 2016;

– Tagusgás - Empresa de Gás do Vale do Tejo, SA – payment in the amount of €85 k, related to interest for the years 2014 and 2015.

The payments made were financed through Ancillary capital contributions from shareholders (Note 23).

On 31 December 2021, the caption of CESE provisions in the amount of €65 174 k corresponds to the total liability, excluding the years for which there was a court decision, that the Group continues to contest, having recognised an increase in the amount of €11 930 k in statement of income in 2021, regarding to CESE in 2021 and €11 915 k in the 2020 financial year.

Other provisions

The caption Other provisions refers mainly to the provision constituted (€2 995 k) for the total debts issued by the Administration of the Port of Lisbon for the occupation in Cabo Ruivo´s land and claimed by Lisboagás - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.. The increase in 2021, in the amount of €190 k, under the caption of other provisions, refers to the reinforcement of this provision.

20 Financial instruments - Derivatives

Not applicable.

21 Financial assets and liabilities

Accounting policy

The Group classifies financial assets and liabilities into the following categories:

a) Financial assets at fair value through other comprehensive income;

b) Financial assets and liabilities carried at amortised cost;

c) Financial assets and liabilities at fair value through profit or loss (derivatives).

Management determines the classification of its financial assets on initial recognition and re-evaluates it at the end of each reporting period if and only if there is a change in the business model. For financial liabilities such changes in classification are not allowed.

Recognition and measurement

Purchases and sales of financial assets are recognised on the date of the transaction. Financial assets are initially recognised at fair value. Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss are subsequently restated at fair value. Fair value disclosures are made separately for each class of financial instruments at the end of the reporting period.

Derecognition

Financial Assets are derecognised from the consolidated statement of financial position when the rights to receive cash flow from investments have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if: (i) the inherent objective to the business model used is achieved, either to collect contractual cash flows or to sell financial assets, and (ii) the underlying contractual cash flows represent only principal and interest payments. Assets in this category are initially and subsequently measured at their fair value, with changes in their book value recorded against Other comprehensive income, except for the recognition of impairment losses, interest or exchange gains and losses, which are recognised in the consolidated statement of income. When the asset is derecognised, the accumulated gain or loss in other comprehensive income is reclassified to profit or loss.

Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortised cost are non-derivative financial assets/liabilities which are held solely for payments of principal and interests (“SPPI”). If collection/payment is expected within one year (or in the normal operating cycle of the business if longer), they are classified as current assets/liabilities. If not, they are presented as non-current assets/liabilities.

Trade receivables and other receivables are recognised initially at fair value. Subsequently they are measured at amortised cost using the effective interest method, less impairment.

Fair value hierarchy

In accordance with the accounting rules, an entity must classify the fair value measurement based on a fair value hierarchy that reflects the meaning of the inputs used for measurement.

The fair value hierarchy has the following levels:

Level 1 - the fair value of the assets or liabilities is based on active liquid market quotation as at the date of the statement of financial position;

Level 2 - the fair value of the assets or liabilities is determined through valuation models based on observable market inputs; and

Level 3 - the fair value of the assets or liabilities is determined through valuation models; whose main inputs are not observable in the market.

In general, the book value of financial assets and liabilities approximates fair value.

Unit: € k

	Notes	2021	2020
Financial assets by category		135 800	152 067
Financial assets at fair value through comprehensive income	13	3	3
Financial assets at amortised cost	12	93 338	95 597
- less deferred costs, subsoil occupation levies and State and other P. Entities	12	(25 026)	(20 412)
Cash and Cash Equivalents	14	67 484	76 879

Financial assets at amortised cost comprises trade receivables and other receivables, net of impairments.

Unit: € k

	Notes	2021	2020
Financial liabilities by category		726 529	734 721
Financial liabilities not measured at fair value	7, 15 and 16	937 019	954 793
- less deferred income and state and other public entities	16	(210 490)	(220 072)

Financial liabilities include financial debt, lease liabilities, trade payables and other payables.

IBOR Reform

The IBOR ("Inter Bank Offered Rates") correspond to reference interest rates used in financial instruments. Examples of these rates are Euribor and Libor. Lately, global regulators assumed the need to move from IBOR rates to risk free rates ("RFR"). As the Euribor rate was subject to reforms that made it compatible with the RFR, it continues to be used in contracts/transactions of financial instruments. Thus, its extinction is not expected in the near future, although this matter is being studied by regulators.

The Group considered its financial instruments portfolio and assessed that the impacts of the referred reform on its financial statements are not relevant, since these instruments are indexed to the Euribor rate or have fixed rates (Note 15). As at 31 December 2021, the financial instruments contracted by the Group and indexed to the Euribor rate correspond to:

i) Financing Agreement – Project Finance: credit line for investment with reimbursement until 15 December 2027. The outstanding amounts of the loan bear interest at the six-month Euribor rate plus a margin, which varies throughout the reimbursement period. The debt amount on 31 December 2021, regarding the use of the credit line for investments, is €6 250 k;

ii) Bond Loan: bonds in the amount of €70 000k, with an interest rate of 0.6% + Euribor 6M. This loan will be fully repaid on 1 August 2024.

On the other hand, the Notes – EMTN Program ("EUR 1 000 000 000 Euro Medium Term Note Programme") in the amount of €600 000k, maturing on 19 September 2023 bears interest at a fixed rate of 1.375%.

22 Financial risk management

Accounting policy

The Group is organised to identify, measure and control the different risks to which it is exposed to using various financial instruments to cover them, in accordance with the corporate guidelines across the Group. The contracting of these instruments is centralized.

GGND is essentially exposed to the interest rate risk.

Interest rate risk

The total interest rate position is managed centrally. Interest rate exposure relates mainly to bank loans and bonds. The purpose of managing interest rate risk is to reduce the volatility of financial costs in the consolidated statement of income. The policy for interest rate risk management aims to reduce the exposure to variable rates by fixing the interest rate risk on loans, using a mix of variable and fixed rate instruments.

Interest rate stress analysis

The analysis of interest rate risk includes investments and loans at variable interest rates. A 0.5% increase in the interest rate would impact Group's financial income as outlined in the table below:

Unit: € k

	2021		2020	
	Exposure risk	Impact on statement of income	Exposure risk	Impact on statement of income
Loans obtained	76 250	(381)	77 347	(386)

Note: Excludes loans not subject to interest rate volatility risk, i.e., fixed rate loans.

Liquidity risk

Liquidity risk is defined as the impact on the profit and/or cash flow of the business of the Group's ability to obtain the financial resources necessary to meet its operating and investment commitments. GGND finances itself through the cash flow generated by its operations and maintains a diversified portfolio of loans and bonds. The Group has access to credit lines that are not fully used but that are at its disposal. These credit lines would cover all loans that are repayable within 12 months. The available short-term credit lines that are not being used amount to €70 000 k as at 31 December 2021 and 2020. GGND has readily available cash and cash equivalents that amount to €67 000 k as at 31 December 2021 and €77 000 k on 31 December 2020. These combined amount to €137 000 k as at 31 December 2021 and €147 000 k on 31 December 2020.

Regarding the maturity of the Group's financial liabilities, mainly financial loans, see Note 15.

Credit risk

Credit risk results from the potential non-payment by one of the parties of their contractual obligations, thus depending of the risk level of the counterparty. In addition, counterparty credit risk arises on monetary investments and hedging instruments. Credit risk limits are established by GGND and are implemented in the various business segments. The credit risk limits are defined and documented, and the credit limits for certain counterparties are based on their credit ratings, periods of exposure and the monetary amount of the exposure to credit risk.

See Note 12 for further risk assessments, specifically regarding Trade receivables and Other receivables.

Claims risk

The GGND Group contracts insurance to reduce its exposure to various risks resulting from claims that may occur during the execution of its activity, as follows:

- Property Insurance: that cover Material Damages, Breakdown of Machinery, Operating and Construction Losses;
- Indemnity Insurance: covering general activity risks, risks related with the natural gas distribution activity; environmental risks and risks of management senior management of the Companies (Directors & Officers);
- Social Insurances: cover work accidents, personal accidents, life and health;

- Financial Insurances: cover credit risks, deposit and robbery;
- Other Insurances: covering vehicles risk, travels, etc.

23 Equity

Equity management policy

Galp Gás Natural Distribuição, S.A. (GGND) is the Group's holding Company in the natural gas distribution business in Portugal, with the Group's consolidated equity as at 31 December 2021 amounting to €239 236 k.

Regarding to the financing model, GGND established on 25 August 2016 a Euro Medium Term Note Program up to a maximum amount of €1 000 000 k (Note 15). On 19 September 2016, GGND issued notes in the amount of €600 000 k.

The GGND group's debt ratio (Net Debt /EBITDA) is 6.2x as referred in Note 15.

Shareholder structure and Dividends

Shareholder structure

On 24 March 2021, the GGND shareholder structure has changed (see Note 1), with the share capital remaining at €89 529 141 divided into 89 529 141 shares, with a nominal value of one Euro each, being fully subscribed and paid up by the following shareholders:

Shareholders	%	No. of shares
	100	89 529 141
Allianz Infrastructure Luxembourg II, S.à.r.l.	45.51	40 743 759
Allianz European Infrastructure Acquisition Holding, S.à.r.l.	29.50	26 412 050
Meet Europe Natural Gas, Lda.	22.50	20 144 057
Petrogal, S.A.	2.49	2 229 275

The shareholder structure as at 31 December 2020 was fully subscribed and held by the following shareholders:

Shareholders	%	No. of shares
	100	89 529 141
Galp New Energies, SA	77.50	69 385 084
Meet Europe Natural Gas, Lda.	22.50	20 144 057

Reserves

During the year ended 31 December 2020, by deliberation at the Shareholders' General Meeting, the Company reinforced the legal reserve in €1 035 k. The total amount of legal reserve is €12 080 k.

Ancillary capital contributions

In accordance with the resolution of the Shareholders' General Meeting of GGND on 20 December 2021, the spontaneous and voluntary realisation of non-remunerated pecuniary ancillary capital contributions payments was approved, subject to the supplementary capital regime as to their enforceability, delivery obligation, accounting and reimbursement, in the global amount of €19 516 k, in order to strengthen the Group's capital structure and to fulfill its financial obligations relating to the payment of CESE (Note 19).

The amount of ancillary capital contributions, in 2021, was paid in accordance with the following distribution among shareholders:

- Allianz Infrastructure Luxembourg II, S.à.r.l.: €8 882 k;
- Allianz European Infrastructure Acquisition Holding, S.à.r.l.: €5 758 k;
- Meet Europe Natural Gas, Lda.: €4 391 k; and
- Petrogal, S.A.: €486 k.

In accordance with current legislation, ancillary capital contributions can only be distributed to shareholders as long as the equity, after its repayment, is not less than the sum of capital and undistributed reserves.

Dividends

In accordance with the Shareholders' General Meeting on 9 August 2021, dividends in the amount of €30 515 k were attributed to the Company's shareholders, regarding to the 2020 net income distribution, which were paid on 30 September 2021.

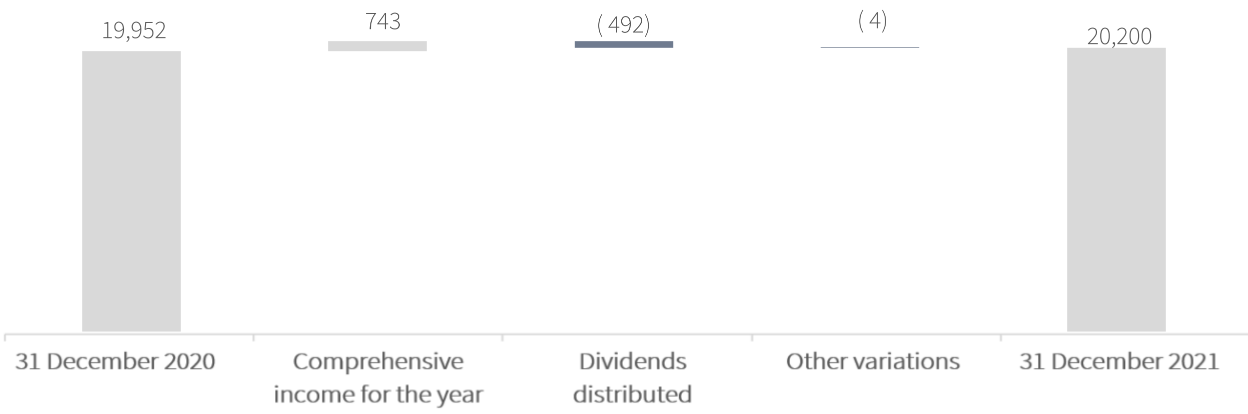
During the year ended on 31 December 2021, dividends in the amount of €492 k were attributed by the subsidiaries of the GGND Group to minority shareholders (Note 24), from which €485 k were paid.

As a result of the aforementioned, during 2021 the Group paid dividends in the amount of €31 007 k, with dividends paid in the amount of €31 000 k.

24 Non-controlling interests

As of 31 December 2021, the changes in non-controlling interests during the year and included in equity are as follows:

Unit: € k



The other variations refer namely to remeasurements with a pension fund.

25 Revenue and income

Accounting policy

Revenue from gas sales (under the last resort commercialisation regime) and the service rendered for the use of the natural gas distribution network is recognised in the consolidated statement of income when the risks and rewards related to the possession of the assets are transferred to the buyer or the services are rendered, and the amount of the corresponding revenue can be reasonably estimated. Sales and services rendered are recognised net of taxes, discounts, and other costs inherent to their materialisation, by the fair value of the amount received or receivable.

Allowed revenue is calculated in accordance with the applicable regulatory parameters and published by ERSE, at the beginning of each regulatory period and the year 2021 corresponds to the second year of the 5th regulatory period, which runs from 1 January 2020 to 31 December 2023.

The amount of the allowed revenue for the gas distribution activity results from the sum of:

(i) The cost of capital, defined as the product of the Regulated Asset Base (“RAB”) by the Rate of Return on regulated assets (“RoR”) published by ERSE, plus amortisation and depreciation of those assets. The RoR comprises a fixed part and a variable part indexed to the average daily quotation of Portuguese Treasury Bonds (OTs) at 10 years, framed by a maximum and a minimum value. The average value of the OTs is obtained by the average of the daily quotation, deducted by 1/12th of the value of the lowest and highest quotation, verified in the calendar year (January to December);

(ii) Recovery of allowed net operating costs (OPEX) indexed to efficiency factors (inflation, consumption locations and distributed volume of gas), with review of applicable regulatory parameters published by ERSE; and

(iii) adjustments, namely related to the tariff deviation, which corresponds to the difference between the income actually billed and the allowed revenue estimated by ERSE, with the difference being incorporated in the calculation of the allowed revenue of the second gas year following the calendar year to which they relate.

Regarding to the gas commercialisation activity, the amount of allowed revenue results from the sum of the following parts:

(i) Recovery of allowed net operating costs (OPEX) indexed to efficiency factors (inflation and customers);

(ii) Additional income established in the commercialisation license;

(iii) Difference between average payment and collection periods; and

(iv) Adjustments, namely related to the tariff deviation, which corresponds to the difference between the income actually billed and the allowed revenue estimated by ERSE. The difference is incorporated in the calculation of the allowed revenue for the second gas year subsequent to the calendar year which it relates.

The regulated tariffs applied by the Group in the invoicing of sold gas and access to the gas distribution networks conveyed in the National Gas System are defined by ERSE, so that they allow the recovery of the permitted revenue calculated at the beginning of each gas year for each regulated activity/function, which are as follows:

(i) Energy tariff to be applied by the wholesale supplier of last resort, which must provide the benefits of the Purchase and Sale of gas function (“FCVG”) for supply to the Last Resort Commercialisation Retailer;

(ii) Commercialisation tariff to be applied by the Last Resort Commercialisation Retailer, which must provide the permitted revenue from the Commercialisation of gas activity of each CURR;

(iii) Global Use of the System tariff (“UGS”) to be applied by the transmission system operator to the distribution network operator, which must provide the allowed revenue from the Global Technical Management Activity of the ORT System;

(iv) Use of the Transportation Network tariff (“URT”) to be applied by the transportation system operator, which must provide the allowed revenue from the Gas Transport Activity;

(v) Distribution Network Use tariff (“URD”) in medium pressure (MP) and for the Distribution Network Use tariff in low pressure (BP), which must provide the allowed revenue from the Gas Distribution Activities of each ORD; and

(vi) Logistics Operation for the Change of Merchant tariff (“OLMC”), which must provide the allowed revenue of the entity responsible for managing the supplier change process.

According to current regulatory assumptions, the period of the gas year is between October and September of the following year, period in which the regulated tariffs are applied. In 2021 the applied tariffs and prices corresponds to the gas year of 2020-2021 (period from 1 January and 30 September) and the gas year of 2021-2022 (period from 1 October to 31 December) published by ERSE.

The gas regulation system is based on the principle of tariff uniformity (where the same tariff is applicable to all regions of the country), and considering the different levels of use of the networks and the efficiency of the regulated companies. ERSE published a compensation mechanism between the ORDs and between the CURRs, applicable across the sector’s companies, in order allow for an equilibrium between the revenue recovered by applying the regulated tariffs and the regulated revenue of those companies (Notes 12 and 16).

Additionally, transfers between CURRs and ORDs (“sobreproveito” transfer) were also defined, with the aim of minimising financial flows between companies, and, likewise, transfers between the Transport Network Operator (ORT) and ORDs, and, in the same way, transfers to the CURRs in order to operationalise the recovery of funds. In this way, ERSE, for each gas year, indicates the amounts of compensation and transfers to be settled between the companies of the National Gas System, within the scope of their Activities.

In 2021, the Group companies estimated and included in their accounts the difference between the published allowed revenue and adjusted allowed revenue, that is, the amount obtained considering the real variables underlying its calculation.

The Group companies recognise in their financial statements, under accruals and deferrals (Notes 12 and 16), the difference between the estimated allowed revenue published for its regulated activity and the revenue generated by the actual billing issued.

Given the regulatory framework and legislation in place, tariff deviations calculated in each year meet several conditions (measurement reliability; financial asset remuneration; entitlement to their recovery and transmissibility of same, among other) that support their recognition as revenue, and as assets in the year they are calculated, namely because they can be reliably measured and there is certainty that economic benefits will flow to the Group.

Costs and income are recorded in the corresponding year, regardless of the date of payment or receipt. Costs and income which actual amounts are unknown, are estimated.

Under "Other receivables" and "Other payables" are recorded costs and income of the current year and which receipt and payment will only occur in future years, as well as receipts and payments that have already occurred, but which relate to future years and will be imputed, in the corresponding amounts, to each year's results.

Estimates and accounting judgments

The Group analysed, under the accounting principles established in IFRS 15, the income framework recognised within the scope of the Gas Distribution and Commercialisation Activities, namely in what regards its performance as Principal vs. Agent.

Within the scope of the Gas Distribution and Commercialisation Activities, the transactions associated with the billed tariffs related to the Global Use of the System ("UGS") and the Use of the Transportation Network ("URT") tariffs were analysed, among others. These tariffs are initially recognised as expenses within the scope of gas distribution and commercialisation services provided by the entity, being subsequently billed to customers and recognised as operating income, given that the services provided or promised to their customers contain the cost of the tariffs included in the price.

Based on the analysis carried out, the Group concluded that each performance obligation defined contractually to provide the specified good or service is its responsibility, thus controlling the goods or services provided to the customer, in its entirety, acting as Principal and not as Agent.

The Group's operating income for the years ended 31 December 2021 and 2020 is as follows:

Unit: € k

	Notes	2021	2020
		199 584	190 986
Sales		3 416	4 628
Goods		3 416	4 641
Products		-	(12)
Services rendered		155 308	151 120
"URD" tariff		142 290	137 616
"URT" tariff		6 861	12 041
"UGS" tariff		5 310	528
"OLMC" tariff		313	420

“ORT” transfer to company - social tariff		(317)	(385)
ORT and ORD transfer		5 234	4 568
MP Discount		(5 709)	(4 839)
“Sobreproveito” transfer		536	485
Connections/Reconnections		304	537
Other		484	150
Other income		40 690	35 009
Profits under IFRIC 12	26	30 781	24 911
Investment subsidies	8	8 927	8 950
Other		982	1 148
Earnings from associates		-	70
Financial income	28	170	159

Regarding the concession contracts under IFRIC 12, the construction of the concessioned assets is subcontracted to specialized entities, which assume the risk inherent in the construction activity, with income and costs associated with the construction of these assets being recognised. The income and costs associated with the construction of these assets are of equal amounts and are duly mentioned in the table above, as well as in the following note of operating costs.

26 Costs and expenses

Costs and expenses for the years ended 31 December 2021 and 2020 are as follows:

Unit: € k

	Notes	2021	2020
		161 839	156 651
Cost of sales		1 946	2 632
Raw and subsidiary materials		-	2
Goods		1 942	2 655
Inventories reduction	11	3	(25)
External supplies and services		44 877	46 305
Specialised works		5 947	6 055
Subcontracts . network use		13 195	14 212
IT Services		6 034	7 924
Administrative and financial services		3 796	2 582
Maintenance and repairs		3 379	3 281
Rental costs		745	226
Technical assistance maintenance		2 738	3 065
Electricity, fuel and water		755	677
Insurance		3 553	1 291
Readings		1 565	1 333
Connections/reconnections		241	390
Cleaning and security		423	739
Travel and accommodation		190	237
Gas meters and infrastructure charges		802	798
Communications		550	674
Personnel assigned from other companies		107	160
Billing and collection		65	17

General Services		590	860
Other		202	1 785
Staff costs	27	22 633	21 929
Amortisation, depreciations and impairment losses of assets	5, 6 and 7	50 438	49 600
Provision	19	185	163
Impairment losses of accounts receivables	12	30	66
Other costs		31 426	25 598
Costs arising from the construction of assets under IFRIC 12	25	30 781	24 911
Donations		23	159
Other taxes		156	180
Other operating expenses		466	348
Financial expenses	28	10 305	10 358

27 Staff costs

Accounting policy

Staff costs

Salaries, social security contributions, annual and sick leave, bonuses, and non-monetary benefits are recognised in the year in which the respective services are rendered by the Company's employees.

Remuneration of the Board of Directors

Under the policy currently adopted, the remuneration of GGND's governing bodies includes all remuneration due for the exercise of positions in Group companies and the accrual of costs related to amounts to be allocated to this period.

According to IAS 24, key personnel correspond to the group of all persons with authority and responsibility to plan, direct and control the Company's activities, directly or indirectly, including any director, whether executive or non-executive. According to the interpretation of this standard by GGND, the only people who meet all these characteristics are the members of the Board of Directors.

Unit: € k

	Notes	2021	2020
Staff costs		22 633	21 929
Staff costs capitalisation		(1 192)	(1 045)
Total costs for the year		23 824	22 974
Board of Directors remuneration		887	630
Staff remuneration		17 144	18 561
Social charges		3 598	3 911
Retirement benefits – pension and insurance	18	1 421	3 529
Other insurance		1 353	1 456

Other charges	(579)	(5 114)

Board of Directors remuneration	887	630
Salaries and bonuses	887	630

Other charges change refer mainly to personnel assigned to other companies of the Galp Group.

28 Financial income and expenses

Accounting policy

The financial charges on loans obtained are recorded as financial expenses on an accrual basis.

Financial charges arising from general and specific loans obtained to finance investments in fixed assets are assigned to tangible and intangible assets in progress, in proportion to the total expenses incurred on those investments net of investment government grants (Notes 5 and 6), until the commencement of its operations, with the remaining being recognised under financial expenses in the consolidated statement of income for the year. Any interest income from loans directly related to the financing of fixed assets which are in the process of construction is deducted from the financial charges capitalised.

Financial charges included in fixed assets are depreciated over the useful life of the respective assets.

Unit: € k

	Notes	2021	2020
		(10 135)	(10 199)
Financial income		170	159
Interest on bank deposits		170	159
Financial expenses		(10 305)	(10 358)
Interest on bank loans, overdrafts and others		(8 794)	(8 759)
Interest on lease liabilities	7	(354)	(383)
Charges relating to loans		(978)	(999)
Other financial costs		(179)	(216)

29 Contingent assets and liabilities and provided guarantees

Accounting policy

Contingent assets and liabilities are arise from past events that need confirmation as to their future occurrence and which may cause economic inflows or outflows from the Group. The Group does not reflect this type of assets and liabilities in its accounts, as they may not be effective. When the probability of occurrence is not remote, the contingent assets and liabilities are disclosed in the notes to the accounts.

Contingent Liabilities

Many municipalities demand payments (liquidations and executions) concerning subsoil occupation levies (TOS) with existing gas pipelines, from the concessionaire companies of the distribution and commercialisation of natural gas, in the amount of €1 654 k. The Group does not agree with the municipalities and refuses to pay what they demand. Because of that they have actions in the Tax Administrative Court, having the suspension of execution request deferred, and the and the execution is suspended until the final decision is handed down. For that reason, guarantees were established.

In the course of negotiating the Concession Contract between the Portuguese State and the Company, it was agreed, among other matters, that the Concessionaire has the right to charge, to the entities selling natural gas and to the final costumers, the full amount of the subsoil occupation levies assessed by the municipalities in the areas conceded under the previous concession contract but not yet paid or contested legally by the Concessionaire if such payment is considered to be mandatory by the competent authority, after issuance of the sentence, or after express prior consent of the Conceding entity. The subsoil occupation levies paid each year will be reflected on the entities supplying gas that use the infrastructures or on the final costumers served by them, during the subsequent years, under the conditions to be defined by ERSE. The subsoil occupation levies will be assessed for each municipality, based on the amount charged by it.

Given the fact that eventual levies to be paid until 31 de December 2021 and interest to be paid will be passed through to customers, the Group has decided not to recognise any liabilities concerning this issue.

As of 31 December 2021, the amounts paid to City Councils and charged to customers related to subsoil usage levies are as follows (the transfer conditions, including the amount to be recovered each year, the number of years of transfer and unit values for customers are governed by ERSE):

Unit: € k

	Notes	2021
Amount to be recovered - Subsoil occupation levies	**12**	**23 377**
Paid amount (includes additional costs)		210 780
Interest		5 357
Amount billed to clients		(192 760)

The amount to be recovered is remunerated based on the twelve-month Euribor rate added by the spread stipulated by ERSE.

Provided guarantees

During its commercial operations, the Company entered into contracts, under which it assumed commitments for commercial, regulatory or other commercial purposes.

As of 31 December 2021 and 2020, the liabilities for provided guarantees are as follows:

Unit: € k

	2021	2020
Provided guarantees	**14 335**	**14 796**
Portuguese State, for the duties and obligations arising from the Concession Agreement	10 322	8 812
Municipalities, relating to subsoil levies	1 654	1 849
Directorate-General of Energy and Geology (DGEG)	1 576	3 054
IP-Infraestruturas de Portugal, S.A.	314	741
Tax Authority (AT – “Autoridade Tributária”)	300	341
Others	168	-

In accordance with the Concession Contracts and Licences established with the Group Companies, the entities, as Concessionaires, must promote adequate financing for the development of the object of the concession, in order to fully and timely fulfil all the obligations they assume in the present contract.

Thus, Concessionaires must maintain at the end of each year a Financial Autonomy ratio greater than 20%. As at 31 December 2021, the Financial Autonomy ratio presented by the Companies that comprise the Group varies between 39.80% and 114.03%.

30 Related Parties

Accounting policy

A related party is a person or entity that is related to the entity preparing its financial statements, and meeting the following requisites:

(a) A person or a close member of that person's family is related to a reporting entity if that person: (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.;

(b) An entity is related to a reporting entity if any of the following conditions applies: (i) The entity and the reporting entity are members of the same group (which means that each parent and subsidiaries are related to the others); (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); (iii) Both entities are joint ventures of the same third party; (iv) One entity is a joint venture of a third entity, and the other entity is an associate of the third entity; (v) The entity is a post-employment defined benefit plan for the benefit of the employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity; (vi) The entity is controlled or jointly controlled by a person identified in (a); (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

The Group has had the following material balances and transactions with related parties:

Unit: € k

	2021	2020
	Current	Current
Assets:	8 383	4 919
Galp Group (a)	8 383	4 919

(a) Galp Group includes all the companies that compose the Galp Energia Group

Unit: € k

	2021	2020
	Current	Current
Liabilities	(6 310)	(7 552)
Galp Group (a)	(6 310)	(7 552)

(a) Galp Group includes all the companies that compose the Galp Energia Group

Unit: € k

	2021	2020
	Operating costs/income	Operating costs/income
Transactions	50 256	48 114
Galp Group (a)	50 256	48 114

(a) Galp Group includes all the companies that compose the Galp Energia Group.

Transactions with Galp Group companies are mainly due to corporate services and IT services cost.

31 Companies from the GGND Group

Group companies are considered to be all the financial investments in companies over which the Group has control, namely if it has cumulatively:

- Power over the investee;
- Exposure or rights in relation to the variable results arising through its relationship with the investee; and
- Ability to use its power over the investee to impact the amounts of the results to the investors.

The equity and the net income corresponding to the participation of third parties in the subsidiaries companies is presented separately in the consolidated financial statement and in the consolidated statement of income, respectively, in "non-controlling interests". The losses and gains that result from the non-controlling interests, are imputed to them, even if it exceeds, in the case of losses, the amount invested by the interests that they do not control.

Regarding the control acquisition date, the Group already has an acquired interest, the fair value of that interest contributes to the determination of Goodwill or negative Goodwill.

Transaction costs that are directly assignable to the business combinations are recognised immediately in the statement of income.

Non-controlling interests include the proportion of the third parties' the fair value of identifiable assets and liabilities at the date of acquisition of the subsidiaries.

When control is acquired in a percentage lower than 100%, by applying the purchase method, the interests that they do not control can be measured at fair value or in proportion to the fair value of the assets and liabilities acquired. Each option is defined in each transaction.

The results of the subsidiaries acquired or sold during the year are included in the consolidated statement of income from the date of their acquisition or the control exercise date until their sale.

Subsequent transactions for the sale or acquisition of financial investments of non-controlling interests, which do not imply control change, nor result in the recognition of gains/losses or Goodwill, being any difference determined between the transaction value and the book value of the transaction recognised in equity.

When required, there are adjustments made in the subsidiary's statement of incomes in order to adapt its accounting policies to the one's used by the Group. Transactions (including gains and losses that may exist due to the disposals between Group companies), the balances and the dividends that are distributed between companies' Group are excluded of the consolidation process, unless the losses that proof there were impairment losses in the transferred assets.

Situations where the Group has, in substance, the control of other structured entities, even if it does not have equity interests directly in these entities, they are consolidated using the full consolidation method. The entities in these situations, when existing, they are included in this Note.

Consolidation perimeter

The companies included in the consolidation and the percentage of shares owned are as follows:

Company and country	Percentage of shares owned 2021	Percentage of shares owned 2020
Parent Company		
Galp Gás Natural Distribuição, S.A., Portugal	-	-
Subsidiaries		
Beiragás - Companhia de Gás das Beiras, S.A., Portugal	59.60%	59.59%
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A., Portugal	100.00%	100.00%
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A., Portugal	100.00%	100.00%
Lisboagás - Sociedade Distribuidora de Gás Natural de Lisboa, S.A., Portugal	100.00%	100.00%
Lusitaniagás - Companhia de Gás do Centro, S.A., Portugal	97.19%	97.19%
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A., Portugal	100.00%	100.00%
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A., Portugal	100.00%	100.00%
Setgás - Sociedade de Distribuição de Gás Natural, S.A., Portugal	100.00%	100.00%
Tagusgás - Empresa de Gás do Vale do Tejo, S.A., Portugal	99.36%	99.36%

32 Subsequent events

Due to the current situation regarding the geopolitical conflict between Russia and Ukraine, the Management of GGND is monitoring the evolution of the situation, in order to control possible operational risks, ensure the maintenance of its activities and mitigate any materially relevant financial impacts on GGND Group companies. Up to the financial statements' approval date, the geopolitical conflict with Russia had no significant impact on the activity.

As mentioned in Note 1, the Licenses for Distribution and Commercialisation of natural gas of the following exploration hubs, initially issued with a deadline on 2022, were modified in February 2022, remaining valid until 31 December 2027:

- Bragança, Chaves, and Vila Real exploration hubs (for the subsidiary Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.);
- Olhão exploration hub (for the subsidiary Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.); and
- Évora exploration hub (for the subsidiary Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.).

The licenses now reissued do not present relevant changes in the remaining terms and conditions when compared to the previous licenses. The negotiations leading to the formalised modification in February 2022 were initiated with the Directorate-General of Energy and Geology (DGEG) during 2021, with the formal event of signature and publication of the Licenses being a merely formal act that confirms the expectation of the Board of Directors on the reporting date of these financial statements that the non-conformity detected as to the need to reissuance the aforementioned Licenses, pursuant to paragraph 2 of article no. 70 of Decree-Law 140/2006 from 26 July, would be rectified. This expectation of reissuance of licenses, with a definitive term in 2027, determined the presentation, on 31 December 2021, of the assets allocated to the Licenses of the related exploration hubs, as intangible assets (Note 6).

Regarding environmental matters, the activity carried out by the Group has minimal, or practically non-existent soil pollution impacts. As for the decommissioning of assets, these events are not expected to occur as it is a strategic asset for the country. However, Management is monitoring these matters and does not anticipate that there will be any impacts on the Group's activity.

There were no additional subsequent events after 31 December 2021 with a material impact on the attached financial statements.

33 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 7 April 2022. However, they are still subject to approval by the Shareholders' General Meeting, in accordance with the commercial law applicable in Portugal. The Board of Directors believes that these financial statements truly and appropriately reflect the Group's operations, its financial performance and cash flows.

34 Translation note

These financial statements are a translation of the financial statements originally issued in Portuguese in accordance with the International Financial Reporting Standards as adopted by the European Union, some of which may not conform to the generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version shall prevail.

THE BOARD OF DIRECTORS:

President:

Diogo António Rodrigues da Silveira

Members:

Jaroslava Korpancová

Karl Klaus Liebel

Ippei Kojima

Nuno Luís Mendes Holbech Bastos

Gabriel Nuno Charrua de Sousa

Yoichi Onishi

Pedro Álvaro de Brito Gomes Doutel

José Manuel Rodrigues Vieira

THE CERTIFIED ACCOUNTANT:

Paula de Freitas Gazul

Separate Financial Statements as at 31 December 2021

Galp Gás Natural Distribuição, S.A.

Disclaimer:
Translation of a report originally issued in Portuguese. In the event of a discrepancy, the Portuguese language version prevails.

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Galp Gás Natural Distribuição, S.A.
Head Office: Rua Tomás da Fonseca Torre C, 1600-209 Lisboa
Share Capital: 89 529 141 Euros
MCRC / NIPC 509 148 247

Statement of financial position

Galp Gás Natural Distribuição, S.A.

Statement of financial position as at 31 December 2021 and 31 December 2020

(Amounts stated in thousand Euro - € k)

Assets	Notes	2021	2020
Non-current assets:			
Intangible assets	5	2 519	842
Right-of-use of assets	6	4 991	5 331
Financial investments in subsidiaries	9	640 422	640 420
Deferred tax assets	16	118	26
Other receivables	11	17	10
Other financial assets	12	127 246	127 246
Total non-current assets:		775 313	773 875
Current assets:			
Other financial assets	12	13 670	-
Trade receivables	11	7 934	15 942
Other receivables	11	3 790	585
Current income tax receivable	16	1 460	3 691
Cash and cash equivalents	13	52 372	52 734
Total current assets:		79 226	72 952
Total assets:		854 539	846 827

Equity and Liabilities	Notes	2021	2020
Equity:			
Share capital	22	89 529	89 529
Ancillary capital contributions	22	19 516	-
Reserves	22	12 471	11 436
Retained earnings		38 463	50 916
Total Equity:		159 980	151 882
Liabilities:			
Non-current liabilities:			
Financial debt	14	668 762	668 059
Lease liabilities	6	4 725	5 012
Post-employment and other employee benefits liabilities	17	526	115
Total non-current liabilities:		674 012	673 186
Current liabilities:			
Lease liabilities	6	376	398
Trade payables	15	3 852	2 474
Other payables	15	15 624	18 887
Current income tax payable	16	695	-
Total current liabilities:		20 547	21 760
Total liabilities:		694 559	694 946
Total equity and liabilities:		854 539	846 827

The accompanying notes form an integral part of the statement of financial position and must be read in conjunction.

Statement of income and comprehensive income

Galp Gás Natural Distribuição, S.A.
Statement of income and comprehensive income for the years ended 31 December 2021 and 31 December 2020.
(Amounts stated in thousand Euros - € k)

	Notes	2021	2020
Services rendered	23	24 704	13 671
Other operating income	23	326	122
Financial income	26	5 826	10 349
Results related to financial investments in subsidiaries	9 and 23	22 295	20 226
Total revenue and income:		53 150	44 368
Supplies and external services	24	(12 242)	(4 144)
Staff costs	24 and 25	(11 563)	(8 519)
Amortisation, depreciation and impairment losses on intangible assets and rights of use	5, 6 and 24	(1 133)	(1 005)
Other operating costs	24	(60)	(3)
Financial expenses	26	(9 793)	(9 773)
Total costs and expenses:		(34 791)	(23 443)
Earnings before taxes and other contributions:		18 361	20 925
Income taxes	16	776	(225)
Net income for the year		19 137	20 700
Basic and Diluted Earnings per share (in Euros)		0.21	0.23

Net income for the year		19 137	20 700
Items which will not be recycled in the future through net income:			
Remeasurements – pensions fund	17	(51)	(35)
Income taxes related to actuarial gains and losses	16 and 17	12	8
Total Comprehensive income for the year		19 097	20 672

The accompanying notes form an integral part of the statement of income and comprehensive income and must be read in conjunction

Galp Gás Natural Distribuição, S.A.
Head Office: Rua Tomás da Fonseca Torre C, 1600-209 Lisboa
Share Capital: 89 529 141 Euros
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Statement of changes in equity

Galp Gás Natural Distribuição, S.A.
Statement of changes in equity for the years ended 31 December 2021 and 31 December 2020.
(Amounts stated in thousand Euros - € k)

	Notes	Share capital	Ancillary capital contributions	Other reserves	Retained earnings – remeasurements	Retained earnings – other	Net income of the year	Total
Balance as at 1 January 2020		89 529	-	9 845	(15)	19	31 833	131 210
Net income for the year		-	-	-	-	-	20 700	20 700
Other gains and losses recognised in equity	17	-	-	-	(27)	-	-	(27)
Comprehensive income for the year		-	-	-	(27)	-	20 700	20 672
Increase/decrease in capital reserves by profit appropriation		-	-	1 592	-	30 241	(31 833)	-
Balance as at 31 December 2020		89 529	-	11 436	(43)	30 260	20 700	151 882
Balance as at 31 January 2021		89 529	-	11 436	(43)	30 260	20 700	151 882
Net income for the year		-	-	-	-	-	19 137	19 137
Other gains and losses recognised in equity	17	-	-	-	(40)	-	-	(40)
Comprehensive income for the year		-	-	-	(40)	-	19 137	19 097
Constitution/increase in ancillary capital contributions	22	-	19 516	-	-	-	-	19 516
Increase/decrease in reserves by profit appropriation	22	-	-	1 035	-	19 665	(20 700)	-
Dividend distribution	22	-	-	-	-	(30 515)	-	(30 515)
Balance as at 31 December 2021		89 529	19 516	12 471	(83)	19 409	19 137	159 980

The accompanying notes form an integral part of the statement of changes in equity and must be read in conjunction.

Statement of cash flow

Galp Gás Natural Distribuição, S.A.

Statement of cash flow for the years ended 31 December 2021 and 31 December 2020.

(Amounts stated in thousand Euros - € k)

	Notes	2021	2020
Operating activities:			
Cash received from customers		38 679	3 323
Cash payments to suppliers		(13 971)	(4 272)
Payments relating to employees		(9 414)	(7 104)
Payments/receipts relating to income taxes		2 150	(5 064)
Other (payments)/receipts relating to the operational activity		(4 256)	(1 024)
Dividends receipts	9 and 23	22 295	20 226
Cash Flow from operating activities (1)		35 483	6 085
Investing activities:			
Cash receipts related to:			
Interests and similar income		5 778	10 873
Loans obtained		-	342 156
Cash payments related to:			
Financial investments		(2)	(342 186)
Tangible assets		(2 373)	(1 016)
Loans obtained	12	(13 670)	(2 869)
Cash Flow from investing activities (2)		(10 267)	6 958
Financing activities:			
Cash receipts related to:			
Loans obtained		4 505	18 601
Ancillary capital contributions	22	19 516	-
Cash payments related to:			
Loans obtained		(9 774)	-
Interests on loans obtained	26	(8 676)	(8 677)
Interests and similar costs		(226)	(191)
Leases	6	(329)	(351)
Lease interests	6	(79)	(86)
Dividends paid	22	(30 515)	-
Cash Flow from financing activities (3)		(25 578)	9 295
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		(362)	22 338
Cash and cash equivalents at the beginning of the year	13	52 734	30 396
Cash and cash equivalents at the end of the year	13	52 372	52 734

The accompanying notes form an integral part of the statement of cash flow and must be read in conjunction.

Galp Gás Natural Distribuição, S.A.
Head Office: Rua Tomás da Fonseca Torre C, 1600-209 Lisboa
Share Capital: 89 529 141 Euros
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Notes to the financial statements as at 31 December 2021

1. Corporate Information

Galp Gás Natural Distribuição, S.A., ("GGND or "Company") with Head Office in Lisbon was established in 2 December 2009 under the company name Galp Gás Natural Distribuição, SGPS, S.A.. Its corporate business is the management of shareholdings in other societies. On 1 April 2015, by unanimous decision of the unique shareholder, GDP Gás de Portugal, SGPS, S.A., the Company changed its corporate name to Galp Gás Natural Distribuição, S.A., changing its corporate purpose to the distribution of natural gas, including supporting services in the areas of management, administrative and logistics, purchasing and supply and information systems.

In October 2016, Galp Gás & Power, SGPS, S.A. (currently Galp New Energies, S.A.) sold 22.5% of the Group Galp Gás Natural Distribuição, S.A. to Meet Europe Natural Gas Lda. This sale resulted in an agreement concluded on 28 July 2016 between Galp Energia SGPS, S.A., through its subsidiary Galp New Energies, S.A. and Marubeni Corporation and Toho Gas Co. Ltd.

On 26 October 2020 Galp New Energies S.A. agreed with Allianz Capital Partners, on behalf of Allianz Infrastructure Luxembourg II S.à.r.l. and Allianz European Infrastructure Acquisition Holding S.à.r.l., to sell 75.01% of its stake in GGND with the remaining 2.49% of GGND's share capital being held by Galp through its subsidiary Petrogal S.A..

On 24 March 2021 and after the regulatory authorisations and obtaining consents from third parties, Allianz Capital Partners, which ultimate beneficial owner is Allianz SE, became the shareholder of 75.01% of GGND's share capital. The remaining shares of GGND are held by Meet Europe Natural Gas, Lda and by Petrogal, S.A..

Its Head Office is in Lisbon, at Rua Tomás da Fonseca Torre C 1, 1600-209 Lisbon.

2. Significant accounting policies, judgments and estimates

The accounting policies adopted by the Company to prepare the financial statements are explained below. During the year ended 31 December 2021, no material prior years errors were noted.

Basis of presentation

Company's financial statements were prepared on a going concern basis, at historical cost, on the accounting records of the Company maintained in accordance with International Financial Reporting Standards as adopted by the European Union, effective for the economic exercise beginning in 1 January 2021. These standards include International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC") and respective interpretations – SIC and IFRIC, issued by the Standing Interpretation Committee ("SIC") and International Financial Reporting Interpretation Committee ("IFRIC"). These standards and interpretations are hereinafter referred to as "IFRS".

Despite the crisis caused by the pandemic COVID-19 and the economic and social consequences it is causing in the world, the Company was not materially affected and the going concern assumption remains valid.

The Company's Board of Directors believes that the attached financial statements and the Notes to the financial statements ensure an adequate presentation of the financial information.

Financial Statements are presented in thousands of Euros (units: € k), rounded to the nearest thousand, unless otherwise stated. Therefore, the subtotals and totals of the tables presented in these financial statements and explanatory notes may not be equal to the sum of the amounts presented, due to rounding.

The accounting policies adopted are, according to their content, included in the respective Note in the Notes to the financial statements. Common or generic accounting policies for several notes are disclosed in this Note.

Estimates and judgments

The preparation of financial statements in accordance with generally accepted accounting principles requires estimates to be made that affect the recorded amount of assets and liabilities, the disclosure of contingent assets and liabilities at the end of each year and income and costs recognised each year. The actual results could be different depending on the current estimates made.

Certain estimates are considered critical if: (i) the nature of the estimates is considered to be significant due to the level of subjectivity and judgment required to record situations in which there is great uncertainty or are very susceptible to changes in the situation; and (ii) the impact of the estimates on the financial situation or operating performance is significant.

The accounting principles and areas that require the greatest number of judgments and estimates in the preparation of financial statements are: i) impairment of intangible assets, rights of use assets and financial investments (Notes 5, 6 and 9); (ii) pensions and other post-employment benefits demographic and financial assumptions (Note 17); (iii) impairment for accounts receivable (Note 11); (iv) useful lives and residual values of intangible assets (Note 5); (v) deferred tax assets and uncertain tax position estimates (Note 16); and (vi) revenue (Note 23).

General accounting policies

Balances and transactions stated in foreign currency

Transactions are recorded in the Company’s financial statement in its functional currency (Euro), at the exchange rates in force on the dates of the transactions.

Gains and losses resulting from differences between the exchange rates in force on the dates of the transactions and those prevailing at the date of collection, payment or at the end of the reporting period are recorded as income and expenses, respectively, in the statement of income in the same captions where the revenue and expenses associated with these transactions are reflected, except those related to non-monetary values whose change in fair value is recorded directly in equity.

Basic and diluted earnings per share

The basic earnings per share are calculated based on the division of profits or losses attributable to holders of the Company's common equity by the weighted average number of outstanding common shares during the period. For the purpose of calculating diluted earnings per share, the Company adjusts the profits or losses attributable to holders of the Company’s common equity, as well as the weighted average number of outstanding shares, for the purposes of all potential diluting common shares. In the period covered by these financial statements, there were no dilutive effects with an impact on net earnings per share, so this is equal to the basic earnings per share.

3. Impact of new international financial reporting standards

3.1 Published standards and interpretations

The IFRS standards endorsed and published on the Official Journal of the European Union (OJEU) during the year 2021 and enforceable for accounting purposes in subsequent years are presented in the table below:

IAS Standards	Publication date in OJEU	Accounting application date	Enforcement year	Observations
IFRS 17 Insurance contracts (issued on 18 May 2017); including amendment to IFRS 17 (issued in 25 June 2020)	23/11/2021	01/01/2023	2023	Not applicable.
Amendment to IFRS 3 Definition of business, IAS 16 Tangible fixed assets, IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual improvements of standards IFRS cycle 2018-2020 (all issued on 14 May 2021)	02/07/2021	01/01/2022	2022	No predictable impact

The IFRS standards endorsed and published in the OJEU, applicable to 2021, are presented in the table below:

IAS Standards	Publication date in OJEU	Accounting application date	Enforcement year	Observations
Amendment to IFRS 16 Leases – Related rent concessions beyond 30 June 2021 (issued on 31 March 20021).	31/08/2021	01/04/2021	2021	No predictable impact
Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark reform – Phase 2 (issued on 27 August 2020).	14/01/2021	01/01/2021	2021	No relevant accounting impacts
Amendment to IFRS 4 Insurance Contracts – Temporary exemption from applying IFRS 9 (issued on 25 June 2020).	16/12/2020	01/01/2021	2021	Not applicable

IFRS standards (new and amendments) that become effective, on or after 1 January 2022, not yet endorsed by the EU are summarized in the table below:

IAS Standards	Accounting application date	Enforcement year	Observations
IAS 1 – Presentation of financial statements – Classification of liabilities; Disclosure of accounting policies	01/01/2023	2023	No predictable significant impact
IAS 8 – Disclosure of accounting estimates	01/01/2023	2023	No predictable significant impact
IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction	01/01/2023	2023	No predictable significant impact
IFRS 17 – Initial presentation of IFRS 17 and IFRS 9 – Comparative information	01/01/2023	2023	Not applicable

4. Tangible assets

Not Applicable.

5. Intangible assets

Accounting policy

Recognition

Intangible assets are stated at acquisition cost, less accumulated amortisation and impairment losses. Intangible assets are only recognised if they are identifiable, and if they are likely to result in future economic benefits for the Company and are controllable and measurable with reliability.

Development expenses are only recorded as intangible assets if the Company demonstrates technical and economic capacity, as well as a decision to complete that development and start its commercialisation or own use, and also demonstrates the probability of the asset generating future economic benefits. If expenses do not meet these requirements, development expenses are recorded as a cost for the year in which they are incurred.

Amortisation

Intangible assets with finite useful life are amortised using straight-line method.

Amortisation rates vary according to the terms of existing contracts or the expected use of the intangible asset.

Accounting estimates and judgments

Useful lives and residual values of intangible assets

The calculation of the assets' residual values and useful lives, as well as the amortisation method to be applied, are essential to determine the amortisation recognised in the statement of income for each period. These parameters are set based on Management's judgment, as well as the practices adopted by peers in the industry. Changes in the economic life of the assets are recorded prospectively.

Intangible assets are as follows:

Unit: € k

	2021			2020
	Industrial property and other rights	Intangible assets under construction	Total	Total
As at 31 December				
Acquisition cost	3 110	1 447	4 556	2 105
Accumulated amortisation	(2 037)	-	(2 037)	(1 263)
Net amount	1 072	1 447	2 519	842

Unit: € k

	2021			2020
	Industrial property and other rights	Intangible assets under construction	Total	Total
Opening balance	732	110	842	531
Additions	-	2 451	2 451	925
Amortisations and impairments losses	(774)	-	(774)	(614)
Transfers	1 114	(1 114)	-	-
Closing balance	1 072	1 447	2 519	842

6. Leases

Accounting policy

Recognition

The Company recognises both a right-of-use asset and a lease liability as at the lease commencement date. The right-of-use asset is initially measured at cost, which represents the initial amount of the lease liability, adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred, plus an estimate of the costs required to dismantle and remove the underlying asset or restore the site on which it is located (if applicable), less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that have not yet been paid up to the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot readily be determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The types of lease payments included in the measurement of the lease liability are as follows:

- Fixed payments, including in kind fixed payments;
- Variable lease payments that are pegged to an index or a rate;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Company is reasonably certain to be able to exercise, and
- Penalties for the early termination of a lease, unless the Company is reasonably certain not to terminate it early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there are changes in the amounts of future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities in a separate line in the statement of financial position.

Short-term leases and leases of low-value assets

The Company decided not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have lease terms of 12 months or less, and leases of low-value assets. The Company recognises the lease payments associated with these leases as expenses on a straight-line basis over the lease term.

Amortisation

The right-of-use asset is subsequently amortised using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined as those used for the property and equipment items.

Impairment

The right-of-use assets are periodically reduced by the amounts of impairment losses and adjusted to reflect certain remeasurements of the respective lease liabilities.

Accounting estimates and judgments

Useful lives, residual values of intangible assets and discount rates

The calculation of the assets' residual values, the estimation of the useful lives, and the discount rates used are based on the assumptions of the lease contracts (or for similar assets) and are set based on Management's judgment, as well as the practices of its peers in the industry.

Impairment of Right-of-use Assets

Identifying impairment indicators, estimating future cash flow and determining the fair value of assets requires Management to use significant judgment in terms of the identification and evaluation of the different impairment indicators, the expected cash flow, the applicable discount rates, useful lives and residual amounts.

The details of right-of-use assets are as follows:

Unit: € k

			2021	2020
	Buildings	Vehicles	Total	Total
As at 31 December				
Acquisition cost	5 909	135	6 044	6 099
Accumulated amortisation	(950)	(103)	(1 053)	(768)
Net Amount	4 959	32	4 991	5 331
Opening balance at 1 January	5 269	62	5 331	6 129
Additions	-	17	17	2
Amortisations	(310)	(49)	(359)	(391)
Other adjustments	-	1	1	(410)
Closing balance at 31 December	4 959	32	4 991	5 331

Lease liabilities are as follows:

Unit: € k

	2021	2020
Maturity analysis – contractual undiscounted cash flow	5 730	6 117
Less than one year	379	401
One to five years	1 435	1 443
More than five years	3 917	4 273
Lease liabilities in the statement of financial position	5 101	5 410
Current	376	398
Non-current	4 725	5 012

The amounts recognised in profit or loss are as follows:

Unit: € k

	Notes	2021	2020
		151	344
Interest on leases	26	79	86
Expenses related to short-term, low-value and variable-payment leases	24	73	258

distribuição gás natural

The amounts recognised in cash flow statement are as follows:

Unit: € k

	2021	2020
Financing activities	(407)	(438)
Payments related to leases	(329)	(351)
Payments related to lease interest	(79)	(86)

7. Government grants and other grants

Not applicable.

8. Goodwill

Not applicable.

9. Financial investments in subsidiaries

Accounting policy

Financial investments in subsidiaries are accounted at acquisition cost, being subsequently measured at cost, deducted of impairment losses, when applicable.

Dividends received from subsidiaries are recognised in the statement of income, when allocated. Whenever the recoverable amount determined is lower than the net book value of the financial participation, the Company records the respective impairment loss in the same caption.

Financial investments in subsidiaries are as follows:

Company	Country	Percentage of capital held	
		2021	2020
Subsidiaries			
Beiragás - Companhia de Gás das Beiras, S.A.	Portugal	59.60%	59.60%
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	Portugal	100.00%	100.00%
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	Portugal	100.00%	100.00%
Lisboagás GDL - Soc. Distrib. de Gás Natural de Lisboa, S.A.	Portugal	100.00%	100.00%
Lusitanigás - Companhia de Gás do Centro, S.A.	Portugal	97.19%	97.19%
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	Portugal	100.00%	100.00%
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	Portugal	100.00%	100.00%
Setgás - Soc. Distrib. de Gás Natural, S.A.	Portugal	100.00%	100.00%
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	Portugal	99.36%	99.36%

All financial holdings are related to the Company's main activity as well as the Group's Natural Gas distribution and commercialisation business.

During 2021, GGND reinforced its position in Beiragás through the acquisition of 508 additional shares.

Unit: € k

	Financial information for subsidiaries - 2021			
	Total assets	Total liabilities	Equity	Net income
	1 232 885	544 508	688 376	19 837
Beiragás - Companhia de Gás das Beiras, S.A.	79 598	34 579	45 019	1 390
Dianagás - Sociedade Distribuidora de Gás Natural de Évora, S.A.	14 124	3 843	10 280	218
Duriensegás - Sociedade Distribuidora de Gás Natural do Douro, S.A.	35 101	9 574	25 526	570
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	524 182	336 000	188 182	5 438
Lusitaniagás - Companhia de Gás do Centro, S.A.	291 924	85 079	206 846	6 154
Medigás - Sociedade Distribuidora de Gás Natural do Algarve, S.A.	19 891	5 399	14 492	307
Paxgás - Sociedade Distribuidora de Gás Natural de Beja, S.A.	6 195	1 081	5 114	60
Setgás-Sociedade de Distribuição de Gás Natural, S.A.	164 564	49 437	115 127	3 522
Tagusgás-Empresa de Gás do Vale do Tejo, S.A.	97 306	19 516	77 790	2 178

Unit: € k

	Financial Investment		Earnings related with financial participations	
	Acquisition Cost	Net amount	Dividends	Total
Financial investments in subsidiaries	640 422	640 422	22 295	22 295
Subsidiaries				
Beiragás - Companhia de Gás das Beiras, S.A.	20 296	20 296	405	405
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	9 987	9 987	565	565
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	25 766	25 766	1 150	1 150
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	157 205	157 205	5 378	5 378
Lusitaniagás - Companhia de Gás do Centro, S.A.	175 258	175 258	7 494	7 494
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	14 073	14 073	632	632
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	4 995	4 995	257	257
Setgás-Sociedade de Distribuição de Gás Natural, S.A.	143 273	143 273	6 414	6 414
Tagusgás-Empresa de Gás do Vale do Tejo, S.A.	89 570	89 570	-	-

For comparative information, refer to the financial statements for the year ended 31 December 2020.

From the analysis carried out by Management on the risk of impairment, it was considered that there are no relevant impairment indicators as at 31 December 2021.

10. Inventories

Not applicable.

11. Trade and other receivables

Accounting policy

Accounts receivable are initially recorded at the transaction value and subsequently measured at amortised cost, less any impairment losses, recognised as impairment losses on accounts receivable. Usually, the amortised cost of these assets does not differ from their nominal value or their fair value.

Trade and other receivables are derecognised when the contractual rights to the cash flow expire (i.e. they are collected), when they are transferred (e.g. sold) or when they are impaired.

Accounting estimates and judgments

Impairment of accounts receivable

The Company applies the IFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. Trade receivables were grouped by business segment for the purposes of the assessment of expected credit losses. The credit risk of the accounts receivable balance is evaluated at each reporting date, taking into consideration the client's credit risk profile. The credit risk analysis is based on the annual default probability and considers the loss in the event of default. The default probability represents an annual probability of default, reflecting the current and projected information and considering macroeconomic factors, whereas the loss in the event of default represents the expected loss when a default occurs.

Accounts receivable are adjusted for management's estimate of the collection risks as at the statement of financial position date, which may differ from the actual impairment to be incurred.

Credit Risk

For credit risk purposes, if customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Credit Risk assessment considers the credit quality of the customer, considering their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. Customers' compliance with credit limits is regularly monitored by Management.

For further credit risk mitigation measures, guarantees and insurance policies for eventual credit defaults are a standard part of Company overall risk policy.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics.

Trade receivables

Trade receivables as at 31 December 2021 and 2020 is detailed as follows:

Unit: € k

	Notes	2021	2020
		Current	Current
		7 934	15 942
Trade receivables	28	7 934	15 942

Unit: € k

	Notes	2021 Current	2020 Current
Ageing Schedule of trade receivables		7 934	15 942
Not yet due		6 658	15 596
Overdue up to 180 days		1 359	204
Overdue between 181 days and 365 days		(83)	142

As mentioned in the policies above, accounts receivable from customers are grouped into shared credit risk characteristics and days past due. For the Company, the credit risk level of accounts receivable is as follows:

Tipo	Exposure to risk
Not yet due	Low
Overdue up to 180 days	Medium
Overdue between 181 and 365 days	High
Overdue over 365 days	Very high

Other Receivables

As at 31 December 2021 and 2020, Other receivables are detailed as follows:

Unit: € k

	Notes	2021		2020	
		Current	Non-current	Current	Non-current
		3 790	17	585	10
Other receivables/other debtors		3 255	-	68	-
Receivables from suppliers		66	-	29	-
Supplier payments in advance	28	3 099	-	16	-
Personnel		1	-	1	-
Other		90	-	22	-
Contract assets		360	-	253	-
Interests to be received		252	-	253	-
Others		108	-	-	-
Deferred charges		175	17	264	10
Other deferred charges		175	17	264	10

Of the €3 099 k of advances to suppliers, €3 048 k refer to payments to Galp Energia, S.A. and €41 k to Petrogal, S.A..

12. Other Financial Investments

Other Financial Investments as at 31 December 2021 and 2020 is detailed as follows:

Unit: € k

	Notes	2021		2020
		Current	Non-current	Non-current
		13 670	127 246	127 246
Financial Assets not measured at fair value- Loan	28	13 670	127 246	127 246

Loans recognised refer to loans obtained to subsidiaries that bear interest at a market rate, indexed to Euribor, and have no defined repayment term. The Company's Management understands that the loans recognised as non-current will not be repaid in the next year, which is the reason for such classification.

The amount of €13 670 k recognised in financial assets - current, relates to cash pooling with Group companies and bears interest at market rates.

13. Cash and cash equivalents

Accounting policy

The amounts included in cash and cash equivalents correspond to cash values, bank deposits, time deposits and other cash investments with maturities less than three months from the date of issue, and which can be immediately mobilised with a risk of insignificant changes in value.

For the purposes of the statement of cash flow, cash and cash equivalents also include bank overdrafts recorded as financial debt in the statement of financial position.

For the years ended 31 December 2021 and 2020 the caption Cash and cash equivalents is detailed as follows:

Unit: € k

	2021	2020
	52 372	52 734
Cash and cash equivalents	52 372	52 734

14. Financial debt

Accounting policy

Loans are recorded as liabilities at the nominal value received, net of the expenses incurred on the issuance of these loans. Loans are subsequently measured at amortised cost.

Financial charges are calculated at the effective interest rate and recorded in the statement of income on an accruals basis in accordance with each loan agreement.

Financial charges include interest and, eventually, commission expenses for structuring loans.

Financial debt as at 31 December 2021 and 31 December 2020 is as follows:

Unit: € k

	2021	2020
	Non-current	Non-current
	668 762	668 059
Bond loans and Notes	668 762	668 059
Origination Fees	(1 238)	(1 941)
Bond loan	70 000	70 000
Notes	600 000	600 000

Description of bank loans

Revolving Credit Facility

As at 31 December 2021, the Company has in place a Revolving Credit Facility, with an underwriting commitment in the total amount of €50 000 k and with a maturity of less than 1 year. This amount was fully available as at 31 December 2021.

Bond loan

As at 1 August 2019, the Company issued bonds to the amount of €70 000 k with an interest rate of 0.6% + Euribor 6M. This bond loan will be totally reimbursed on 1 August 2024.

Notes issuance

The Company established on 25 August 2016, an EMTN Program (“EUR 1,000,000,000 Euro Medium Term Note Programme”).

Under the EMTN program, on 19 September 2016, the Company issued notes in the amount of €600 000 k, maturing on 19 September 2023 and with a coupon of 1.375%, to be traded in the London Stock Exchange regulated market. JP Morgan, BofA Merrill Lynch and Banco Santander Totta acted as Joint-Bookrunners. The Notes market value as at 31 December 2021 is €613 716 k.

Under these programs (Bond loan and EMTN), a set of financial ratios (“Financial Covenants”) have been set and they represent an increased level of protection for GGND Group creditors. These ratios, called Net Debt / EBITDA (ND / E) and Debt Service Coverage Ratio (DSCR) have two limits - one in the form of a lock-up event and the other in the form of an event of default, calculated based on the GGND consolidated financial statements. As at 31 December 2021 the ratios are as follows:

Financial ratios	2021
Net Debt [1]/Ebitda [2]	6.2x
Debt Service coverage ratio [3]	3.6x

[1] Bank debt + Bank loan + Loan interest – Cash and cash equivalents

[2] EBITDA + Provisions (excluding CESE)

[3] Operating activities cash flow (excluding CESE) - Payment CAPEX/Interests paid

It is important to highlight that these ratios, as at 31 December 2021, were within the established limits.

15. Trade payables and other payables

Accounting policy

Trade payables and Other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method. Usually, the amortised cost does not differ from the nominal value.

As at 31 December 2021, and 2020, Trade payables and Other payables, current and non-current, are detailed as follows:

Unit: € k

	Notes	2021	2020
		Current	Current
Trade payables		3 852	2 474
Trade payables - current accounts		480	82
Trade payables - pending invoices		802	893
Trade payables – related companies	28	2 570	1 499
Other payables		15 624	18 887
State and other public entities		866	2 377
VAT payables		726	2 333
Other taxes		140	44
Other payables/ Other creditors		85	-
Intangible assets suppliers		78	-
Personnel		4	-
Other		3	-
Related parties		5 968	11 237
Loans	28	5 968	11 237
Accrued costs		7 633	4 541
Supplies and external services		2 197	699
Staff renumerations to be paid		2 942	1 339
Accrued interest		2 492	2 492
Other accrued costs		2	11
Deferred income:		1 072	732
Other		1 072	732

The loan, in the amount of €5 968 k, concerns to cash pooling with subsidiaries and aims to manage the Group's treasury needs. This balance bears interest at a rate indexed to Euribor.

The increase of Accrued costs - Supplies and external services, in 2021 comparing to 2020, refers mainly to services provided by Galp Energia S.A. during 2021 to be billed in 2022.

The increase in Accrued costs - Staff renumerations to be paid, in 2021 comparing to 2020, refers mainly to the increase in the productivity and profit sharing bonuses accrual, resulting from the increase of employees during the year ended 31 December 2021.

16. Income Taxes

Accounting policy

The Company and some of its subsidiaries are covered by the special tax regime for groups of companies (“RETGS”). The Company is subject to Income Tax (“IRC”). Income tax is calculated based on the taxable results of the Company in accordance with the applicable tax rules.

Deferred taxes are calculated based on the liability method and reflect the temporary differences between the amounts of assets and liabilities recorded for accounting purposes and their amounts for tax purposes.

Deferred tax assets and liabilities are calculated and reviewed annually using the tax rates expected to be in force when the temporary differences revert.

Accounting estimates and judgments

Deferred tax assets and liabilities are recorded only when there is reasonable expectation of sufficient future taxable income to use them or whenever there are taxable temporary differences that offset the deductible temporary differences in the period they revert. Temporary differences underlying deferred tax assets are reviewed at each statement of financial position date in order to recognise deferred tax assets that were not recorded in prior years as they did not fulfil all requisites and/or to reduce the amounts of deferred tax assets recorded based on the current expectation of their future recovery.

Deferred taxes are recorded in the statement of income for the year, unless they result from items recorded directly in equity, in which case the deferred tax is also recorded in equity.

Income taxes for the year ended 31 December 2021 and 2020 is as follows:

Unit: € k

	Notes	Assets		Liabilities	
		2021	2020	2021	2020
		1 460	3 691	695	-
GGND Group companies	28	1 460	3 691	-	-
Income tax receivable/payable		1 460	3 691	-	-
State and other public entities		-	-	695	-
Income tax receivable/payable		-	-	695	-

As at 31 December 2021, the receivable balance from GGND Group companies results from the application of the RETGS, with the Company being the dominant company responsible for the payments to the State under this regime. The payable balance corresponds to the net balance with the State, resulting from the income tax estimate for the period deducted from withholding and advance tax payment. Until 2020, the dominant company of RETGS was Galp Energia, S.G.P.S., S.A..

Income taxes for the year ended 31 December 2021 and 2020 is as follows:

Unit: € k

	2021			2020		
	Current tax	Deferred tax	Total	Current tax	Deferred tax	Total
Income tax for the period	(695)	(81)	(776)	228	(3)	225
Current income tax	(632)	(81)	(713)	291	(3)	288
(Excess)/insufficiency of estimated income tax	(63)	-	(63)	(63)	-	(63)

The effective income tax rate reconciliation as at 31 December 2021 and 2020 is as follows:

Unit: € k

	2021	Rate	Income tax	2020	Rate	Income tax
Result before taxes:	18 361	21.00%	3 856	20 925	21.00%	4 394
Income tax adjustments:						
Deferred tax and insufficiency/excess of income tax estimate for		(0.78%)	(144)		(0.31%)	(66)
Autonomous taxation		0.69%	127		0.58%	120
Surcharge – Regional and state		-	-		0.05%	11
Received Dividends		(25.50%)	(4 682)		(20.30%)	(4 247)
Other increases and deductions		0.36%	67		0.06%	12
Income tax and effective income tax rate		(4.23%)	(776)		1.08%	225

During the year ended as at 31 December 2021, the movements in deferred tax assets and liabilities, at a rate of 22.5%, is as follows:

Unit: € k

	As at 31 December 2020	Impact on the statement of income	Impact on Equity	As at 31 December 2021
Deferred Taxes - Assets	26	81	12	118
Retirement benefits and other benefits	26	9	12	47
Provisions not accepted for tax purposes	-	72	-	72

For comparative information, refer to the financial statements for the year ended 31 December 2020.

17. Retirement benefit obligations

Accounting policy

Defined-Contribution Plan

The Company has a defined-contribution plan financed by a pension fund managed by an independent entity. The Company's contributions to the defined¬-contribution plan are recorded in the statement of income in the period in which they occur.

Other retirement benefits

Associated with the defined-contribution plan, the Company grants a minimum benefit for situations of disability and survival.

Recognition of defined benefit plans

The period costs for post-employment benefit plans are determined based on the Projected Unit Credit method. This method reflects the services provided by employees at the valuation date, based on actuarial assumptions, as well as considering a discount rate to determine the present value of benefits and the remuneration projected rates of growth. The discount rate is based on the yield on high-quality bonds denominated in Euros.

Actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recorded in equity in the period in which they occur. Past Services Liabilities are recognised immediately in the statement of income.

Other retirement benefits – minimum benefits defined-contribution plan

The costs to be borne by the Company with the minimum benefit defined-contribution plan are recognised as costs during the period in which the employees who receive these retirement benefits provide services to the Company. These liabilities are recognised in the statement of financial position under the caption Post-employment and other employee benefits liabilities. Payments made to beneficiaries during each period are recorded as a reduction of this caption.

Accounting estimates and judgments

Demographic and financial assumptions used to calculate the retirement benefit liabilities

Accounting for pensions and other post-retirement benefits requires estimates to be made when measuring the Group's pension plan surpluses and deficits. These estimates require assumptions to be made regarding uncertain events, including discount rates, inflation and life expectancy.

Post-employment benefits

Unit: € k

	2021	2020
Liabilities	(526)	(115)
Other benefits	(526)	(115)
Minimum benefit defined-contribution plan	(208)	(115)
Other	(318)	-

Post-employment liabilities

Unit: € k

	Notes	2021	2020
Past service liability at the end of the current year		526	115
Past service liability at the end of the previous year		115	65
Current service cost		40	14
Interest cost	26	2	1
Actuarial (gain)/loss		51	35
Other adjustments		318	-

The average maturity of liabilities for defined contribution plan is 11.1 years.

Post-employment benefit expenses

Unit: € k

	Notes	2021	2020
Current service cost		40	14
Interest cost	26	2	1
Net cost for the year before special events		41	15
Other adjustments		318	-
Net cost for the year of defined-benefit plan expenses		359	15
Defined contribution		50	26
Net cost for the year of defined-contribution plan expenses		50	26
Total	25	408	40

Remeasurements

Unit: € k

	Notes	2021	2020
		(40)	(27)
Gains and losses recognised through comprehensive income		(51)	(35)
(Loss)/Gains from actuarial experience		(46)	(33)
(Loss)/Gains from changes in actuarial assumptions		(6)	(2)
Taxes related to actuarial gains and losses	16	12	8

Assumptions

	Other benefits	
	2021	2020
Technical interest rate	1.05%	1.50%
Rate of increase of salaries/costs	1.00%	1.00%
Rate of increase of pensions	0.00%	0,00%
Mortality table for current staff and pre-retirees	INE 2009-2011	INE 2009-2011
Mortality table for retired staff	INE 2009-2011 | GKF95	INE 2009-2011 | GKF95
Disability table	EVK 80 - 50%	EVK 80 - 50%
Normal age for retirement	67 years, except for early retirement cases at 66 years or 65 years if at least with 43 years or 46 years of discounts to Social Security (S.S). at 65 years, respectively	67 years, except for early retirement cases at 66 years or 65 years if at least with 43 years or 46 years of discounts to Social Security (S.S). at 65 years, respectively
Method	Project credit unit	Project credit unit

Stress Analysis

Stress analysis of the discount rate

Unit: € k

	Discount rate	
	1.05%	Δ-0.25%
	208	3
Minimum benefits defined-contribution plan	208	3

18. Provisions

Not applicable.

19. Derivative financial instruments

Not applicable.

20. Financial assets and liabilities

Accounting policy

The Company classifies financial assets and liabilities into the following categories:

a) Financial assets at fair value through other comprehensive income;

b) Financial assets and liabilities carried at amortised cost;

c) Financial assets and liabilities at fair value through profit or loss.

Management determines the classification of its financial assets on initial recognition and re-evaluates it at the end of each reporting period if and only if there is a change in the business model. For financial liabilities such changes in classification are not allowed.

Recognition and measurement

Financial assets are recognised as at the trade date, that is the date in which the Entity has assumed the commitment to acquire that asset and are initially recognised at fair value. Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss are subsequently carried at fair value. Fair value disclosures are made separately for each class of financial instruments at the end of the reporting period.

Derecognition

Financial assets are derecognised from the statement of financial position when the rights to receive cash flow from investments have expired or have been transferred, and company has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if: (i) the objective inherent to the business model used is achieved, either to collect contractual cash flows or to sell financial assets, and (ii) the underlying contractual cash flows represent only principal and interest payments. Assets in this category are initially and subsequently measured at their fair value, with changes in their book value recorded against Other comprehensive income, except for the recognition of impairment losses, interest or exchange gains and losses, which are recognised in the statement of income. When the asset corresponding to a debt instrument is derecognised, the accumulated gain or loss in other comprehensive income is reclassified to profit or loss.

Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortised cost are non-derivative financial assets/liabilities which are held solely for payments of principal and interests (“SPPI”). If collection/payment is expected within one year (or in the normal operating cycle of the business if longer), they are classified as current assets/liabilities. If not, they are presented as non-current assets/liabilities.

Trade receivables and other receivables are recognised initially at fair value. Subsequently they are measured at amortised cost using the effective interest method, less impairment.

Fair value hierarchy

In accordance with the accounting rules, an entity must classify the fair value measurement based on a fair value hierarchy that reflects the meaning of the inputs used for measurement.

The fair value hierarchy has the following levels:

- Level 1 - the fair value of the assets or liabilities is based on active liquid market quotation as at the date of the statement of financial position;
- Level 2 - the fair value of the assets or liabilities is determined through valuation models based on observable market inputs; and
- Level 3 - the fair value of the assets or liabilities is determined through valuation models; whose main inputs are not observable in the market.

In general, the book value of financial assets and liabilities approximates fair value.

Unit: € k

	Notes	2021	2020
Financial assets by category		201 738	196 227
Financial assets not measured at fair value	11 and 12	152 657	143 783
- less deferred costs and advances to suppliers	11	(3 291)	(290)
Cash and cash equivalents	13	52 372	52 734

Financial assets at amortised cost comprises other financial investments, trade receivables and other receivables net of impairments.

Unit: € k

	Notes	2021	2020
Financial liabilities by category		691 401	691 721
Financial liabilities not measured at fair value	6, 14 and 15	693 339	694 830
- less deferred income and state and income tax payable	15	(1 938)	(3 110)

Financial liabilities include financial debt (including lease liabilities), trade payables and other accounts payable including other creditors and other payables to related companies.

IBOR Reform

The IBOR ("Inter Bank Offered Rates") correspond to the reference interest rates used in financial instruments. Examples of these rates are Euribor and Libor. In recent years, the global regulators assumed the need to move from IBOR rates to risk free rates ("RFR"). As the Euribor rate was subject to reforms that made it compatible with the RFR, it continues to be used in contracts/transactions of financial instruments. Thus, its extinction is not expected in the near future, although this issue is being studied by regulators.

The Company considered its financial instruments portfolio and assessed that the impacts of the referred reform on its financial statements are not relevant, since these instruments are indexed to the Euribor rate or have fixed rates (Note 14). As at 31 December 2021, the financial instruments contracted by the Company and indexed to the Euribor rate correspond to:

- Bond loan: bonds in the total amount of €70 000 k, with an interest rate of 0.6% + Euribor 6M. This loan will be fully repaid on 1 August 2024.

21. Financial risk management

The Company is exposed to various types of market risks inherent in the activity it conducts. Detailed information on these risks and their impact on the GGND Group is reflected in Note 22 of the Notes to the Company's consolidated accounts.

22. Capital Structure

Share Capital

On 24 March 2021, the shareholder structure of GGND was changed (see Note 1). The share capital remains at €89 529 141, divided into 89 529 141 shares, with a nominal value of one Euro each, being fully subscribed and paid up by the following shareholders:

Shareholders	2021 %	2021 No. of shares	2020 %	2020 No. of shares
	100	89 529 141	100	89 529 141
Galp New Energies, S.A.	-	-	77.50	69 385 084
Meet Europe Natural Gas, Lda.	22.50	20 144 057	22.50	20 144 057
Allianz Infrastructure Luxembourg II S.à.r.l.	45.51	40 743 759	-	-
Allianz European Infrastructure Acquisition Holding S.à.r.l.	29.50	26 412 050	-	-
Petrogal, S.A.	2.49	2 229 275	-	-

Reserves

In accordance with the Company deeds and Commercial Law ("Código das Sociedades Comerciais - CSC"), the Company must transfer a minimum of 5% of its annual net profit to a legal reserve, included in the caption Reserves in the shareholders equity, until the reserve reaches 20% of share capital. The legal reserve cannot be distributed to the shareholders but may, in certain circumstances, be used to increase capital or to absorb losses after all the other reserves have been utilised.

For the years ended 31 December 2021 and 2020 the caption is detailed as follows:

Unit: € k

	2021	2020
	12 471	11 436
Legal reserves	12 471	11 436

During the year ended 31 December 2021, the Company reinforced the legal reserve in the amount of €1 035 k.

Ancillary capital contributions

During the year ended 31 December 2021, the Company's shareholders, in proportion to their holdings, made ancillary capital contributions in the amount of €19 516 k, subject to the supplementary capital regime. These ancillary capital contributions were intended to allow the payment in 2021 of the GGND Group's responsibilities related to the Extraordinary Contribution to the Energy Sector (CESE).

Dividends

In accordance with the Shareholders' General Meeting on 28 July 2021, dividends in the amount of €30 515 k were attributed to the Company's shareholders, which were paid in September 2021.

23. Revenue and Income

Accounting policy

Sales revenue are recognised in the statement of income when all the risks and rewards related with the ownership of the assets are transferred to the buyer or the services are rendered, and the amount of the corresponding revenue can be reasonably estimated. Sales and services rendered are recognised net of taxes, discounts and rebates by the fair value of the amount received or receivable. Costs and revenues are recorded in the corresponding year, independently of the date of payment or receipt. Costs and revenues for whose actual amount is unknown, are estimated.

Under the captions Other receivables and Other payables are recorded costs and revenues of the current year and which receipt and payment will only occur in future periods, as well as receipts and payments already occurred but related to future years and that are assigned to each year's results.

Exchange differences arising from supplier and customer balances are recognised in operating results.

For the years ended 31 December 2021 and 2020 the revenue and Income is detailed as follows:

Unit: € k

	Notes	2021	2020
		53 151	44 368
Services rendered		24 704	13 671
Other operating income		325	122
Supplementary gains		325	118
Other		-	4
Earnings related with investments in subsidiaries	9	22 295	20 226
Financial Income	26	5 826	10 349

Services rendered in 2021 and 2020 include, among others, the amount of and €24 704 k and €13 671 k, respectively, related, mainly, to management services provided to other group companies (Note 28).

The change in Services rendered occurred, namely, by the increases in the Company's operating costs, in 2021, which are passed on to its subsidiaries.

Head Office: Rua Tomás da Fonseca Torre C, 1600-209 Lisboa
Share Capital: 89 529 141 Euros
MCRC / NIPC 509 148 247

24. Costs and Expenses

Costs and expenses for the years ended 31 December 2021 and 2020 is as follows:

Unit: € k

	Notes	2021	2020
Total costs:		34 791	23 443
Supplies and external services		12 242	4 144
Other specialised services		6 595	1 982
Travel and accommodation		85	118
Rental costs	6	73	258
Fuel		118	99
Insurance		113	36
IT services		3 877	551
Electricity, water, fuel and communications		270	301
Legal services		131	32
Other costs		981	766
Staff costs:	25	11 563	8 519
Amortisation, depreciation and impairment on fixed assets	5 and 6	1 133	1 005
Other operational costs:		60	3
Other taxes		1	1
Other costs		59	2
Financial expenses	26	9 793	9 773

The increase in Supplies and external services was mainly due to the increase in services provided by Galp Energia S.A., during 2021.

25. Staff costs

Accounting policy

Staff costs

Wages, salaries, social security contributions, annual leave and sick leave, bonuses and non-monetary benefits are recognised in the year in which the respective services are rendered by employees of Galp Gás Natural Distribuição, S.A..

Staff costs for the years ended 31 December 2021 and 2020 is as follows:

Unit: € k

	Notes	2021	2020
Staff costs	24	11 563	8 519
Staff costs capitalisation		(30)	-
Total costs of the year		11 592	8 519
Board of Directors remuneration		848	594
Staff remuneration		2 808	787
Social charges		483	222
Assigned staff		6 878	6 745
Retirement benefits - pensions and insurance	17	408	40
Other insurance		71	46
Other costs		95	84

	Notes	2021	Unit € k 2020
Board of Directors remuneration		848	594
Salaries		704	487
Bonuses		135	100
Allowances		9	7

The increase of staff costs in 2021 was due to the increase of the number of employees.

26. Financial income and expenses

Accounting policy

Financial income and expenses include interest on external loans, related party loans, leasing and retirement and other benefit plans. Other financial income and expenses from other financial assets or liabilities are not included in this caption.

The financial charges on loans obtained are recorded as financial expenses on an accrual's basis.

Financial charges arising from general and specific loans obtained to finance investments in fixed assets are assigned to tangible and intangible assets under construction, in proportion to the total expenses incurred on those investments net of investment government grants, until the commencement of its operations. The remainder is recognised under the heading of financial expenses in the statement of income for the year. Any interest income from loans directly related to the financing of fixed assets which are in the process of construction is deducted from the financial charges capitalised.

Those financial charges included within fixed assets are depreciated over the useful lives of the respective assets.

Unit: € k

	Notes	2021	2020
		(3 967)	576
Financial income:		5 826	10 349
Interest and other income with related companies	28	5 826	10 349
Financial expenses:		(9 793)	(9 773)
Interest on bank loans, bonds, overdrafts and others		(8 676)	(8 677)
Net interest on retirement and other benefits	17	(2)	(1)
Interest on lease liabilities	6	(1)	(2)
Interest on lease liabilities- Related parties	6 and 28	(78)	(85)
Other financial costs		(1 036)	(1 008)

The decrease in 2021, in the Financial Income – Interest and other income with related companies, was due to the total loan repayment from the subsidiaries Lusitaniagás, S.A. and Setgás, S.A. and partial loan repayment from the subsidiary Lisboagás, S.A., in the previous year.

27. Contingent assets and liabilities

Not applicable.

Head Office: Rua Tomás da Fonseca Torre C, 1600-209 Lisboa
Share Capital: 89 529 141 Euros
MCRC / NIPC 509 148 247

28. Related parties

Accounting policy

A related party is a person or entity that is related to the entity preparing its financial statements, as follows:

(a) A person or a close member of that person's family is related to a reporting entity if that person: (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies: (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); (iii) Both entities are joint ventures of the same third party; (iv) One entity is a joint venture of a third entity, and the other entity is an associate of the third entity; (v) The entity is a post-employment defined benefit plan for the benefit of the employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity; (vi) The entity is controlled or jointly controlled by a person identified in (a); (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

As at 31 December 2021 the Company presents the following balances and transactions with related parties:

Assets

Unit: € k

		Current					Non-current
	Total	Trade receivables (Note 11)	Loans obtained (Note 12)	Advances to suppliers (Note 11)	Current tax (Note 16)	Accruals and deferrals	Loans obtained (Note 12)
Assets:	153 769	7 934	13 670	3 099	1 460	360	127 246
Entities from GGND Group	150 585	7 918	13 670	-	1 460	291	127 246
Entities from Galp Group	3 184	16	-	3 099	-	69	-

For comparative information, refer to the financial statements for the year ended 31 December 2020.

Liabilities

Unit: € k

		Current		
	Total	Trade payables (Note 15)	Loans obtained (Note 15)	Accruals and deferrals
Liabilities:	9 940	2 570	5 968	1 403
Entities from GGND Group	6 384	734	5 968	(318)
Entities from Galp Group	3 557	1 836	-	1 721

For comparative information, refer to the financial statements for the year ended 31 December 2020.

Transactions

Unit: € k

	Operating costs	Operating income	Financial costs (Note 26)	Financial income (Note 26)
Transactions:	(15 075)	24 070	(78)	5 826
Entities from GGND Group	(6 734)	24 057	-	5 826
Entities from Galp Group	(8 341)	13	(78)	-

For comparative information, refer to the financial statements for the year ended 31 December 2020.

29. Information on Environmental Matters

Not applicable.

30. Subsequent Events

Due to the current situation regarding the geopolitical conflict between Russia and Ukraine, the Management of GGND is monitoring the evolution of the situation, in order to control possible operational risks, ensure the maintenance of its activities and mitigate any materially relevant financial impacts on GGND Group companies. Up to the financial statements' approval date, the geopolitical conflict with Russia had no significant impact on activity.

There were no additional subsequent events after 31 December 2021 with a material impact on the attached financial statements.

31. Approval of the financial statements

The financial statements were approved by the Board of Directors on 7 April 2022. However, they are still subject to approval by the Shareholders' General Meeting, in accordance with the commercial law applicable in Portugal.

32. Translation note

These financial statements are a translation of the financial statements originally issued in Portuguese in accordance with the International Financial Reporting Standards as adopted by the European Union, some of which may not conform to the generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version shall prevail.

THE BOARD OF DIRECTORS:

President:

Diogo António Rodrigues da Silveira

Members:

Jaroslava Korpancová

Karl Klaus Liebel

Ippei Kojima

Nuno Luís Mendes Holbech Bastos

Gabriel Nuno Charrua de Sousa

Yoichi Onishi

Pedro Álvaro de Brito Gomes Doutel

José Manuel Rodrigues Vieira

THE CERTIFIED ACCOUNTANT:

Paula de Freitas Gazul

Annual Activity Report of the Audit Board of Galp Gás Natural Distribuição, S.A. for the financial year 2021

In accordance with the of paragraph 1 item g) of article 420 of the Portuguese Commercial Companies Code (CSC) and of paragraph 1 item g) of article 6 of the regulations of the Audit Board of Galp Gás Natural Distribuição, S.A. (GGND), the Audit Board hereby presents its report on the supervisory activity performed during the financial year of 2021.

I. Introduction

The Company adopts the Latin model set out in the articles 278, paragraph 1, item a) and 413, paragraph 1, item b), both from the Commercial Company Code, includes a Board of Directors, responsible for the management of the Company, an Audit Board, responsible for monitoring the Company's activity, and an Statutory Auditor - independent of the Audit Board.

The current Audit Board in office was elected at the General Shareholders' Meeting held on May 15, 2019, for the 2019-2021 term of office, being composed by three members, all independent, in accordance with the criteria set out in paragraph 5 of article 414 of the CSC.

All members of the Audit Board meet the compatibility criteria for the performance of their duties as laid down in paragraph 1 of article 414-A of the CSC.

II. Activity performed by the Audit Board in relation to the financial year 2021

In 2021, the Audit Board held thirteen meetings.

The permanent monitoring of the Company during this period was conducted, namely, through meetings with the Chairman of the Executive Committee, with the Director responsible for the financial area, with the person in charge and employees of the Financial Management of GGND, with the entity responsible for the internal audit function of the Group, with the Ethics and Conduct Committee (CEC), with the heads of Accounting and Taxation Department, Legal and Governance Department of Galp Energia, S.A. within the scope of a service agreement in force between this Company and GGND, and with the Statutory Auditor/External Auditor.

Through these meetings, the Audit Board monitored, in particular, the financial situation of the Company, the risk management system of the GGND Group, the main litigation processes with possible impact on the financial statements of the Group, the internal audit activities of the GGND Group, executed through Ernest & Young to whom the internal audit functions were attributed to the period 2021 and 2022, and the application of the Code of Ethics and Conduct, through the CEC.

During the year 2021, the Audit also monitored the functioning of the corporate governance system adopted by GGND and the compliance with legal, regulatory, and statutory rules, having provided relevant recommendations for improving the Company's governance.

The Audit Board's access to financial information was carried out regularly and properly, either through the Financial Management of GGND or through the Accounting Management of Galp Energia, S.A., which is responsible for preparing the financial information, without any constraints have arisen in the performance of their duties.

The Audit Board carried out the verification of the accuracy of the financial statements and the reliability of the financial information and the monitoring of compliance with accounting policies, criteria and practices through the analysis of the reports prepared by the Statutory Auditor/External Auditor.

During 2021, the Audit Board carried out several activities of monitoring, supervision and evaluation of the operation and adequacy of internal control systems, risk management and internal audit of GGND, and also monitored the implementation by the Company of measures aimed at improving internal control in response to recommendations from the Internal and External Auditor.

The Audit Board considers that the Company has made a continuous effort to improve the risk management systems, namely through the monitoring of the GGND Risk Matrix, internal control and internal audit, supporting the execution of the respective annual audit plan. This year, as in the last one, the uncertainties generated by the pandemic caused by SARS-CoV-2 required the Company to undertake additional work on the impacts, risks and mitigation measures associated with the new coronavirus (Covid-19).

In 2021, the Audit Board assessed the activity of the External Auditor, regularly monitoring its activity, namely through a critical appraisal of the reports and documentation produced by it in the performance of their duties.

In the context of verification of compliance with the rules on independence of the External Auditor, the Audit Board authorized the provision of services not related to audit services for which a prior opinion of this Body is necessary, having confirmed that the independence of the External Auditor was ensured. These services represented 18.0% compared to the audit services provided in 2021, therefore significantly lower than the limit of 70% established in article 4, paragraph 2, of the EU Regulation No. 537/2014 (European Audit Supervision).

Within the scope of its function of annual assessment of the activity of the External Auditor, the Audit Board considers that the External Auditor provided its services satisfactorily in accordance with the Audit Plan to the GGND Group in 2021 submitted to the Audit Board, having complied with the applicable rules and regulations and revealed in its performance technical rigor, quality in the conclusions presented, namely in terms of the statutory audit, opportunity and efficiency in the recommendations issued and competence of the development of the procedures performed.

Lisbon, March 29th, 2022

Chairman
Daniel Bessa

Member
Pedro Antunes de Almeida

Member
Armindo Marcelino

Report and Opinion of the Audit Board of Galp Gás Natural Distribuição, S.A.

Dear Shareholders,

According to the legislation in force and the Company's By-laws, and in accordance with our mandate, we hereby presented our opinion on the 2021 Management Report, which includes the individual and consolidated financial statements and the proposal of allocation of net income presented by the Board of Directors of Galp Gás Natural Distribuição, S.A. (GGND), with regard to the year ended December 31, 2021.

During 2021, we have met with the Statutory Auditor/External Auditor of the Company, monitoring the performance of their supervising role.

We have monitored the process of preparation and disclosure of financial statements, as well as the legal certification of the individual and consolidated annual accounts.

We have verified and supervised the independence of the Statutory Auditor / External Auditor, in compliance with the applicable law, in particular, verifying and approving the provision of non-audit services.

We have reviewed the Statutory Audit Report and Auditors' Report on the individual and consolidated financial statements for the financial year 2021, with which we agree.

Pursuant to article 420, paragraph 6, of the Commercial Companies Code, each of the below indicated members of the Audit Board declares that, to the extent of his knowledge, the management report, the annual financial statements, the statutory audit report and auditors' report and any further accounting documents regarding the year of 2021 were prepared in accordance with the applicable accounting standards, providing a true and fair image of the assets and liabilities, financial position and results of GGND and the companies included in the consolidation perimeter, and that the management report faithfully reflects the evolution of the business, performance and position of GGND and companies included in the consolidation perimeter, and includes a description of the main risks and uncertainties that these companies face in their activity.

Accordingly, taking into consideration the information received from the Board of Directors and of the departments of the Company, as well as the conclusions set out in the Statutory Audit Report and Auditors' Report on the financial statements, both individual and consolidated, we express our agreement with the 2021 Management Report, the Individual and Consolidated Financial Statements and the proposal of allocation of the individual net income for the financial year 2021, so we are of the opinion that it should be approved at the General Shareholders' Meeting.

Lastly, the Audit Board wishes to express its gratitude to both the Board of Directors and Executive Committee of GGND for their cooperation in the exercise of their duties.

Lisbon, April 12th, 2022

Chairman
Daniel Bessa

Member
Pedro Antunes de Almeida

Member
Armindo Marcelino

Statutory Audit Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Galp Gás Natural Distribuição, S.A. (the Group), which comprise the consolidated statement of financial position as at December 31, 2021 (which shows total assets of Euro 1,328,694 thousand and total shareholders' equity of Euro 239,236 thousand including a consolidated net income for the year of Euro 15,555 thousand), the consolidated statement of income and comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Galp Gás Natural Distribuição, S.A. as at December 31, 2021, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	*Summary of the Audit Approach*
Concession assets *Disclosures related to intangible assets are presented in notes 2 and 6 of the consolidated financial statements.*	
As at December 31, 2021, Intangible assets amounts to Euro 1,134,283 thousand (Euro 1,150,700 thousand as at December 31, 2020) and corresponds mainly to assets built and/or acquired under licenses and concession agreements signed between the Group and the Portuguese State, and which are accounted for in accordance with the Intangible assets model defined in IFRIC 12 – Service concession agreements. According to the above-mentioned agreements and licenses, unless the law exempts it, the Portuguese State must indemnify the Group companies, at the end of each concession period, in the amount corresponding to the net book value of the assets allocated to the concessions. Considering the relevance of the net book value of intangible assets in the total assets of the consolidated financial statements, as well as the relevance that their recovery may have in the continuity of operations of the Group companies in the medium and long term, the concession assets, namely their initial recognition and subsequent measurement, were considered as a key audit matter.	In order to ensure the correct recognition and measurement of the Intangible assets allocated to concessions, the following procedures were performed, among others: - understanding and evaluation of the internal control process associated with the management of intangible assets and procurement, namely regarding to investment approval policies and respective monitoring; - obtaining, from the Group's services, the details of the intangible assets allocated to concessions, with an indication of amount, date of acquisition, useful life, accumulated amortization and amortization of the year, when applicable; - holding meetings with management, in order to understand the monitoring carried out on the net amount and recoverability of assets allocated to concessions, namely for assets whose useful lives are longer than the term of the respective operating licenses/concession agreements; - reading the minutes of the Executive Committee and of the Board of Directors of the respective Group companies, in order to validate existing investment projects; - performing substantive audit procedures on assets allocated to concessions in order to confirm their correct classification, their initial recognition and subsequent measurement, as well as the appropriateness of the operations cut-off. We also verified the adequacy of the disclosures presented in the consolidated financial statements, considering the requirements of the applicable accounting standards.

Key Audit Matter	*Summary of the Audit Approach*
Revenue recognition and tariff deviation *Disclosures related to revenue and tariff deviation are presented in notes 2,12,16 and 25 of the consolidated financial statements.*	
As at December 31, 2021, the Group presents tariff deviations, assets and liabilities, respectively in the amounts of Euro 36,502 thousand and Euro 6,936 thousand. In compliance with the legislation and in accordance with the applicable regulatory parameters published by ERSE (Energy Sector Regulatory Authority), the revenue of the distribution and retail of natural gas is recognized based on the allowed revenue published at the beginning of each regulatory period. The tariff deviations calculated in each year, which correspond to the difference between the revenue actually billed and the revenue estimated, are recognized in the Other receivables and Other payables captions, as applicable. Any adjustments resulting from the definitive amounts of the allowed revenue published by ERSE are incorporated in the calculation of the regulated revenue for the second gas year subsequent to the calendar year to which they relate. Given the relevance of the amounts in question and the timing of their recovery, we consider the recognition of revenue from regulated activities and the associated tariff deviation as a key audit matter.	In order to ensure the correct revenue recognition from regulated activities and the correct measurement of tariff deviations, the following audit procedures were performed, among others: - understanding of the applicable regulatory framework; - obtaining from the Group's services the calculation of tariff deviations and reconciling the values contained therein with the several existing sources of information, namely publications made by ERSE; - substantive audit procedures to validate the amounts invoiced by the Group, namely with regard to its regulated activity; - performing analytical procedures to validate the tariff deviations estimate of the year and respective classification, based on the information published by ERSE and the amounts invoiced by the Group. We also verified the adequacy of the disclosures presented in the consolidated financial statements, considering the requirements of the applicable accounting standards.

Litigation and tax contingencies

Disclosures related to litigation and tax contingencies are presented in notes 17, 19 and 29 of the consolidated financial statements.

The dimension and structure of the Group originates an increase in the complexity of the tax recognition in the Group's financial statements. As a consequence, the Group has several pending tax matters and litigations in progress, including those related to the Energy Sector Extraordinary Contribution - "CESE", recognizing provisions whenever the Group considers that a negative outcome is probable, in accordance with IAS 37. The assessment of the outcome probability is supported by the legal consultants and tax advisors of the Group, as well as by the management judgment in relation to these matters. As at December 31, 2021 the provisions recognized in the consolidated financial statements amounted to Euro 69,256 thousand (2020: Euro 77,713 thousand).

The relevance of this matter in our audit is related with the complexity and level of judgment inherent to the tax matters, as well as the unpredictability associated with the respective outcome.

The audit procedures performed included, among others:

- obtaining the detailed listing of the pending tax contingencies and legal actions, categorized by the outcome probability;

- understanding tax and legal contingency processes;

- obtaining and analyzing the replies to the confirmation letters sent to external lawyers;

- inquiry of the management and of the tax and legal Directors of the Group over the estimates and judgments considered.

We also assessed the adequacy of the disclosures presented in the notes to the consolidated financial statements, considering the requirements of the applicable accounting standard.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the consolidated financial position, the consolidated financial performance and cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements.

Report on other legal and regulatory requirements

Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Directors' report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Galp Gás Natural Distribuição, S.A. in the Shareholders' General Meeting of July 7, 2011, for the period from 2011 to 2013, having remained in duties until the current period. Our last appointment was in the Shareholders' General Meeting of May 15, 2019 for the period from 2019 to 2021.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of April 11, 2022.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 1 of article No. 5 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014 and that we remain independent of the Group in conducting our audit.

April 11, 2022

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda
represented by:

Rita da Silva Gonçalves dos Santos, ROC no. 1681
Registered with the Portuguese Securities Market Commission under no. 2016129

Statutory Audit Report

(Free translation from the original in Portuguese)

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Galp Gás Natural Distribuição, S.A. (the Entity), which comprise the statement of financial position as at December 31, 2021 (which shows total assets of Euro 854,539 thousand and total shareholders' equity of Euro 159,980 thousand including a net profit of Euro 19,137 thousand), the statement of income and comprehensive income, the statement of changes in equity and the statement of cash flow for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Galp Gás Natural Distribuição, S.A. as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the “Auditor’s responsibilities for the audit of the financial statements” section below. In accordance with the law we are independent of the Entity and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	*Summary of the Audit Approach*
Valuation of financial investments	
Disclosures related to financial investments are presented in the notes 2 and 9 of the financial statements.	
As at December 31, 2021, Galp Gás Natural Distribuição, S.A. holds financial investments in subsidiaries and associates in the amount of Euro 640,422 thousand, which are valued at acquisition cost, deducted of impairment losses. These financial investments are subject to impairment testing whenever there are indicators or changes in the underlying circumstances which indicate that the carrying value may not be recoverable. For that purpose, the recoverable amount is determined by the value in use, in accordance with the discounted cash flows method. The calculation of the recoverable amount requires the use of estimates and assumptions by the management, which depend on economic and market estimates, namely those related to future cash-flows, growth rates for the perpetuity and discount rates used. The relevance of this matter in our audit is related to the significance of the amounts involved and level of complexity and judgement associated to the impairment models.	To confirm the accurate valuation of the financial investments the following audit procedures were performed, among others: - evaluation of impairment indicators in the financial investments; and - obtaining and analyzing the impairment testing on financial investments, when applicable. The analysis of the impairment testing, based on discounted cash flows models, considers the following procedures, when applicable: - verifying the mathematical accuracy of the model; - assessing the reasonableness of the future cash flows projections, from the comparison with historical performance; - evaluating the accuracy of the discount rate considered; and - evaluating the estimates and judgments assumed by the management, underlying the relevant assumptions supporting the model. Additionally, we have verified the accuracy of the disclosures presented in the financial statements, considering the requirements of the applicable accounting standard.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Entity in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Entity's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Entity's financial information.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

g) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

h) confirm to the supervisory board that we comply with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the financial statements.

Report on other legal and regulatory requirements

Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Directors' report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Entity, no material misstatements were identified.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Galp Gás Natural Distribuição, S.A. in the Shareholders' General Meeting of July 7, 2011, for the period from 2011 to 2013, having remained in duties until the current period. Our last appointment was in the Shareholders' General Meeting of May 15, 2019 for the period from 2019 to 2021.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Entity's supervisory board as of April 11, 2022.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 1 of article No. 5 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014 and that we remain independent of the Entity in conducting our audit.

April 11, 2022

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda
represented by:

Rita da Silva Gonçalves dos Santos, ROC no. 1681
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