

Audit Report on Consolidated Financial Statements
issued by an Independent Auditor

VE SONNEDIX EQUITYCO, S.L. and SUBSIDIARIES
Consolidated Financial Statements and Consolidated
Management Report for the year ended
December 31, 2019



AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 22)

To the Sole Shareholder of VE Sonnedix Equityco, S.L. at the request of the Sole Director:

Opinion

We have audited the consolidated financial statements of VE Sonnedix Equityco, S.L. (the Parent), and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the equity and financial position of the Group as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those regulations are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Most relevant audit issues

Most relevant audit issues are those matters that, in our professional judgment, were the most significant assessed risks of material misstatements in our audit of the consolidated financial statements of the current period. These risks were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these risks.

Regulatory framework, including revenue recognition, calculation of the recoverable value of non-current assets and the ability to repay loans received

Description The Group's revenue from contracts with customers are from electricity sales, an activity subject to a specific tariff model established by the prevailing regulatory framework, as explained in Note 3 to the accompanying financial statements. Consequently, revenue recognized in the year was estimated based on criteria and parameters stipulated by the current tariff model. Likewise, the estimates made by management of future cash flows used to calculate the recoverable amount of assets as well as the Group's capacity to settle its liabilities depend on meeting budgets prepared for the entire estimated useful life of energy production installations, including an estimate of revenue received primarily from the aforementioned tariff model. These factors have caused us to consider this issue a key audit matter.

Our response Our audit procedures have included, among others, the following:

- ▶ Reviewing the current tariff model and assessing the degree of compliance therewith.
- ▶ Testing revenue recognition to verify the reasonableness of the estimates made based on regulatory changes during the year.
- ▶ Verifying accounts payable and receivable from energy sales taking into account provisional and definitive settlements with the "CNMC" and from the intermediary during the year.
- ▶ Checking that the current regulatory framework was taken into account when analyzing the recoverable amount of the Group's non-current assets.
- ▶ Reviewing the disclosures included in the notes to the financial statements in conformity with the regulatory framework for financial reporting applicable to the Group.

Other information: consolidated management report

Other information refers exclusively to the 2019 consolidated management report, the preparation of which is the responsibility of the Parent's Sole Director and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the consolidated management report is to assess and report on the consistency of the consolidated management report with the consolidated financial statements based on the knowledge of the Group we obtained while auditing the consolidated financial statements, and not including any information not obtained as evidence during the course of the audit. In addition, our responsibility is to assess and report on whether the content and presentation of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, the information contained in the consolidated management report is consistent with that provided in the 2019 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Parent's Sole Director responsibilities for the consolidated financial statements

The Parent's Sole Director is responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with the IFRS-EU and other provisions in the regulatory framework applicable in Spain, and for such internal control as they determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's Sole Director is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Parent's Sole Director either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are 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 prevailing audit regulations in Spain 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 consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ 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.

- ▶ 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.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Parent's Sole Director.
- ▶ Conclude on the appropriateness of the Parent's Sole Director 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.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ 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 are solely responsible for our audit opinion.

We communicate with the Parent's Sole Director 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.

From the significant risks communicated with the Parent's Sole Director, we determine those that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the most significant assessed risks.

We describe those risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

ERNST & YOUNG, S.L.
(Registered in the Official Register of
Auditors under No. S0530)

(signed on the original version In Spanish)

Ambrosio Arroyo Fernández-Rañada
(Registered in the Official Register of
Auditors under con el N° 20648)

May 8, 2020

**VE Sonnedix Equityco, S.L.
and Subsidiaries**

Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2019

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CONSOLIDATED MANAGEMENT REPORT

VE Sonnedix Equityco, S.L. and Subsidiaries

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2019 AND 2018

(Thousands of euros)

ASSETS	Notes	2019	2018	EQUITY AND LIABILITIES	Notes	2019	2018
NON-CURRENT ASSETS		64,667	68,296	EQUITY		(12,671)	(10,130)
Intangible assets	5	11,389	8,179	CAPITAL AND RESERVES	11	(12,671)	(10,130)
Operating rights		6,916	7,981	Share capital		3	3
Right-of-use in leases		4,283	-	Issued capital		3	3
Other intangible assets		190	198	Reserves in consolidated companies		(14,959)	(12,799)
Property, plant, and equipment	6	48,097	55,204	Other owner contributions		4,821	4,826
Land and buildings		71	71	Consolidated profit (loss) for the year		(2,536)	(2,160)
Plant		48,026	55,133				
Financial investments	7	5	7				
Deferred tax assets	13	5,176	4,906				
				NON-CURRENT LIABILITIES		80,660	81,181
				Provisions	19	409	389
				Borrowings		64,597	63,448
				Bonds and other marketable securities	12.1	60,378	63,448
				Other borrowings	12.2	4,219	-
				Borrowings from group companies and associates	12.3 and 14	12,103	13,256
				Deferred tax liabilities	13	3,551	4,088
CURRENT ASSETS		8,185	8,165	CURRENT LIABILITIES		4,863	5,410
Inventories		59	84	Bank borrowings		3,258	4,050
Trade and other receivables		3,261	2,687	Bonds and other marketable securities	12.1	3,134	4,050
Trade receivables	8	3,246	2,686	Other borrowings	12.2	124	-
Other receivables from public administrations	13	15	1	Payables to group companies and associates	12.3 and 14	305	618
Financial investments	7	2,879	3,312	Trade and other payables		1,300	742
Accruals		42	6	Other accounts payable	12.4	150	131
Cash and cash equivalents	9	1,944	2,076	Other payables to public administrations:	13	1,150	611
TOTAL ASSETS		72,852	76,461	TOTAL EQUITY AND LIABILITIES		72,852	76,461

The accompanying Notes 1 to 22 are an integral part of the consolidated balance sheet at December 31, 2019.

VE Sonnedix Equityco, S.L. and Subsidiaries

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR 2019 AND 2018

(Thousands of euros)

	Notes	2019	2018
CONTINUING OPERATIONS			
Revenue	15.a	10,863	11,018
Income from sale of energy		10,863	11,018
Other operating income		-	2
Supplies	15.c	(769)	(768)
Other operating expenses	15.d	(1,179)	(1,052)
Depreciation and amortization	15.e	(8,458)	(8,275)
OPERATING PROFIT (LOSS)		457	925
Finance costs			
Finance costs for bonds and other marketable securities	15.f	(3,699)	(3,795)
Finance costs with Group companies and associates	14 and 15.f	(2,367)	(2,507)
Other finance costs	15.f	(1,154)	(1,266)
NET FINANCE COST		(3,699)	(3,795)
PROFIT (LOSS) BEFORE TAX		(3,242)	(2,870)
Corporate income tax	13	706	710
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		(2,536)	(2,160)
CONSOLIDATED PROFIT FOR THE YEAR		(2,536)	(2,160)

The accompanying Notes 1 to 22 are an integral part of the consolidated statement of profit and loss for 2019.

VE Sonnedix Equityco, S.L. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31,

2019 AND 2018

(Thousands of euros)

	Notes	2019	2018
PROFIT (LOSS) FOR THE PERIOD (I)		(2,536)	(2,160)
Income and expense recognized directly in equity		-	-
TOTAL INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY (II)		-	-
Amounts transferred to the consolidated statement of profit or loss		-	-
TOTAL AMOUNTS TRANSFERRED TO CONSOLIDATED STATEMENT OF PROFIT OR LOSS (III)		-	-
TOTAL RECOGNIZED INCOME AND EXPENSE (I+II+III)		(2,536)	(2,160)

The accompanying Notes 1 to 22 are an integral part of the consolidated statement of comprehensive income for the year ended December 31, 2019.

VE Sonnedix Equityco, S.L. and Subsidiaries

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousands of euros)

	Issued capital (Note 11.a)	Other owner contributions (Note 11.b)	Reserves in consolidated companies (Note 11.c)	Profit (loss) for the year	TOTAL
BALANCE AT DECEMBER 31, 2017	3	4,621	(7,950)	(4,849)	(8,175)
Total recognized income and expense	-	-	-	(2,160)	(2,160)
Appropriation of 2017 comprehensive income	-	-	(4,849)	4,849	-
Transactions with shareholders:					
Owner contributions	-	312	-	-	312
Repayment of owner contributions	-	(107)	-	-	(107)
BALANCE AT DECEMBER 31, 2018	3	4,826	(12,799)	(2,160)	(10,130)
Total recognized income and expense	-	-	-	(2,536)	(2,536)
Appropriation of 2018 comprehensive income	-	-	(2,160)	2,160	-
Transactions with shareholders:					
Owner contributions	-	99	-	-	99
Repayment of owner contributions	-	(104)	-	-	(104)
BALANCE AT DECEMBER 31, 2019	3	4,821	(14,959)	(2,536)	(12,671)

The accompanying Notes 1 to 22 are an integral part of the consolidated statement of changes in equity for the year ended December 31, 2019.

VE Sonnedix Equityco, S.L. and Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousands of euros)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		5,294	3,357
Profit (loss) before tax		(3,242)	(2,870)
Adjustments to profit:		12,157	12,070
- Depreciation and amortization (+)	15.e	8,458	8,275
- Finance income (-)		-	-
- Finance costs (+)	15.f	3,699	3,795
Changes in working capital		328	(144)
- Inventories		25	34
- Trade and other receivables		(568)	216
- Trade and other payables		480	(272)
- Other current assets and liabilities		391	(122)
Other cash flows from operating activities		(3,949)	(5,699)
- Interest and commissions paid		(3,928)	(5,699)
- Interest received		-	-
- Income tax payments		(21)	-
CASH FLOWS FROM INVESTING ACTIVITIES		(99)	(943)
Payments on investments (-)		(99)	(943)
- Property, plant, and equipment	6	(99)	(368)
- Other assets (*)		-	(575)
Proceeds from disposals (+)		-	-
- Other assets (cash contributed in business combinations)		-	-
CASH FLOWS FROM FINANCING ACTIVITIES		(5,327)	(7,364)
Transactions with shareholders	11	(5)	205
- Owner contributions (+)		99	312
- Repayment of owner contributions (-)		(104)	(107)
Proceeds from and payments of financial liabilities		(5,322)	(7,569)
- Repayment and redemption of:			
Borrowings from third parties (-)	12.1	(4,050)	(5,868)
Payables to group companies (-)	12.3	(1,153)	(1,701)
Other current payables (lease liabilities) (-)	2.4	(119)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(132)	(4,950)
Cash and cash equivalents at beginning of period	9	2,076	7,026
Cash and cash equivalents at end of year	9	1,944	2,076

(*) Includes the consideration delivered in business combinations and purchases of installations made by the Group.

The accompanying Notes 1 to 22 are an integral part of the consolidated cash flow statement for the year ended December 31, 2019

VE Sonnedix Equityco, S.L. and Subsidiaries

Notes to the consolidated financial statements for the year ended December 31, 2019

1. COMPANIES AND ACTIVITIES OF THE GROUP

VE Sonnedix Equityco, S.L. (Sole Shareholder Company) ("VE Sonnedix Equityco, S.L." or "the Parent") and subsidiaries form a Group of companies ("the Group").

VE Sonnedix Equityco, S.L. was incorporated on April 3, 2017 for an indefinite period and registered at the Mercantile Registry on the same date. The sole shareholder of the Parent at December 31, 2019 is VE Sonnedix Luxembourg Holdco 2 SARL.

At December 31, 2019 and 2018, the Parent belonged to a Group of companies (the Sonnedix Spain Group) whose parent is Sonnedix España, S.L.U., a Spanish company that issues consolidated financial statements and a consolidated management report, and whose registered address is located in Madrid at calle Príncipe de Vergara 108.

Further, VE Sonnedix Equityco, S.L. is the head of a group of companies and voluntarily prepares consolidated financial statements in accordance with prevailing regulations given that it is in turn consolidated by Sonnedix España, S.L.U., filing said consolidated financial statements with the Spanish Mercantile Registry.

During 2019, the Spanish subsidiaries of VE Sonnedix Equityco, S.L. changed their name in those cases in which their former name included "Vela Energy," which was replaced by "Sonnedix España" (see Appendix I).

In addition, on April 12, 2019, the Parent changed its registered address in Madrid to calle Príncipe de Vergara, number 108 (formerly its registered address was located in Madrid at the calle Jenner, número 3, 4º).

Appendix I includes the breakdown of subsidiaries, associates, and investees in which VE Sonnedix Equityco, S.L. holds direct or indirect interest, as well as the consolidation method applied, registered addresses, activities, percentages of ownership interest (direct and indirect), and the most relevant financial information on said entities. Further, no subsidiary was excluded from the consolidation process.

Group activity

The Group's business model is oriented towards the operation of solar energy farms for the generation of electric energy in Spain. The Group currently employs photovoltaic technology. At December 31, 2019 and 2018 the Group's total installed capacity amounted to 18.12 MWp (15.86 MW of nominal capacity).

The Group is at present operating the following photovoltaic solar farms:

- A photovoltaic solar farm comprising 36 installations located in Jaén, with Parque Eólico De Cubla, S.L., a Group company, as the owner.
- A photovoltaic solar farm comprising 18 installations located in Málaga, with Vela Energy SPV XIX, S.L., a Group company, as the owner.
- A photovoltaic solar farm comprising 40 installations located in La Herrera (Murcia), with Vela Energy SPV XVII, S.L., a Group company, as the owner. Said photovoltaic farm forms a part of the Herreras project.
- A photovoltaic solar farm comprising 30 installations located in Corvera (Murcia), with Vela Energy SPV XVII, S.L., a Group company, as the owner. Said photovoltaic farm forms a part of the Corveras project.
- A photovoltaic solar farm comprising 10 installations located in Miralcamp (Lleida), with Vela Energy SPV VII, S.L. as the owner.

- A photovoltaic solar farm comprising 20 installations located in Monforte de Lemos (Lugo), with Vela Energy SPV XVI, S.L., a Group company, as the owner.
- A photovoltaic solar farm comprising 6 installations located in Madridanos (Zamora), with Vela Energy SPV XX, S.L., a Group company, as the owner.

Finally, in 2019 and 2018 the Group did not carry out any new acquisitions or make any changes to its consolidation scope.

Environmental disclosures

Given the business activities performed by the Group, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be material in respect of its equity, financial position or performance. Consequently, the Notes to the accompanying consolidated financial statements do not include specific disclosures relating to environmental matters, except for Note 19, which includes disclosure on dismantling provisions.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 *Financial reporting framework applicable to the Group*

The sole director of the Parent prepared the accompanying consolidated financial statements in accordance with the financial reporting framework applicable to the Group, which is set out in:

- a) The Spanish Code of Commerce and remaining mercantile legislation
- b) International Financial Reporting Standards adopted by the European Union ("IFRS-EU"), with the IFRS in force at December 31, 2019 being applicable to the extent adopted by the European Union, in accordance with Regulation (EC) number 1606/2002 of the European Parliament and the Council, taking into account all the mandatory accounting principles and standards as well as measurement criteria which have a significant effect, as well as the alternatives permitted by regulations in this respect
- c) Binding rules approved by the ICAC (Instituto de Contabilidad y Auditoría de Cuentas - Spanish Audit and Accounting Institute) enacting Spanish GAAP and its complementary regulations
- d) The remaining applicable Spanish regulations.

Note 4 to the accompanying consolidated financial statements provides a summary of the most significant accounting principles and measurement criteria applicable for their preparation.

2.2 *Basis of preparation*

The accompanying consolidated financial statements are presented in thousands of euros and were prepared from the Parent's accounting records and those of the rest of the companies which belong to the VE Sonnedix Equityco Group, with the euro as the functional currency of the Parent and its subsidiaries.

The consolidated financial statements were prepared in accordance with the regulatory framework for financial information applicable to the Group as established in IFRS adopted by the European Union ("IFRS-EU"), taking into account all the mandatory accounting principles and standards as well as measurement criteria, together with the Spanish Commercial Code, the Spanish Corporate Enterprises Act, and remaining applicable mercantile legislation.

Given that the accounting principles and measurement criteria applied when preparing the consolidated financial statements may differ from those used by certain companies included therein (which apply local regulations), the necessary adjustments and reclassifications were applied during the consolidation process to standardize the principles and criteria in accordance with IFRS-EU.

In order to standardize presentation of the various items included in the accompanying consolidated financial statements, the measurement principles and criteria followed by the Parent were applied to all companies included in the consolidation scope, the effect of which did not have a significant impact on the consolidated financial statements. .

The accompanying consolidated financial statements for 2019 were prepared by the Parent's sole director and will be submitted for approval by the sole shareholder within the legally established deadlines. The sole director of the Parent expects them to be approved without any modifications.

On June 28, 2019 the sole shareholder of VE Sonnedix Equityco, S.L. approved the consolidated financial statements and consolidated management report for 2018, as well as the corporate management policy carried out by the sole director of the Parent during said year.

2.3 True and fair view

The accompanying consolidated financial statements give a true and fair view of the VE Sonnedix Equityco Group's consolidated equity, consolidated results of its operations, changes in consolidated equity, and consolidated cash flows during 2019 and 2018.

2.4 Adoption of IFRS

The main accounting policies and measurement standards adopted by the Group are presented in Note 4 to the accompanying consolidated financial statements in accordance with the stipulations of IFRS-EU.

a) Standards and interpretations approved by the European Union and applied for the first time during the current reporting period

IFRS 16 Leases

The VE Sonnedix Equityco Group applied IFRS 16 on January 1, 2019 via the modified simplified retrospective method. Consequently, the balances for 2018 were not modified.

At December 31, 2019 the Group had signed a series of lease agreements as lessee for the land it does not own and on which the photovoltaic solar farms being operated are located.

The useful life of the leased assets was determined based on the best estimate made by the sole director of the Parent, taking into consideration the contractual characteristics of each agreement (duration, extension rights, etc.). In this manner, when calculating the right-of-use assets the Group considered the extension options included in the lease agreements for the land on which the photovoltaic installations are located based on their regulatory useful lives.

The impact of adopting IFRS 16 to the consolidated balance sheet at January 1, 2019 is as follows:

<i>(Thousands of euros)</i>	12/31/2018	IFRS 16	1/1/2019
Non-current assets	68,296	4,462	72,758
Current assets	8,165	-	8,165
Total assets	76,461	4,462	80,923
Equity	(10,130)	-	(10,130)
Non-current liabilities	81,181	4,343	85,524
Current liabilities	5,410	119	5,529
Total equity and liabilities	76,461	4,462	80,923

The reconciliation of lease liabilities recognized by the Group in the transition to IFRS 16 on January 1, 2019 with the operating lease commitments disclosed at December 31, 2018, is as follows:

<i>(Thousands of euros)</i>	
Operating lease commitments at December 31, 2018	6,495
Weighted average discount rate at January 1, 2019	3.216%
Operating lease commitments discounted at January 1, 2019	4,462
Payments for optional periods not included at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	4,462

The movements of assets recognized (right-of-use assets arising from leases) at December 31, 2019 due to application of IFRS 16 are shown below (Note 5):

<i>(Thousands of euros)</i>	
Balance at January 1, 2019	4,462
Additions from signing new contracts	-
Depreciation and amortization	(179)
Total right-of-use assets at December 31, 2019	4,283

The movements in liabilities recognized due to application of IFRS 16 at December 31, 2019 is as follows:

<i>(Thousands of euros)</i>		Balance at 12/31/2019
Lease liabilities at January 1, 2019		4,462
Additions from signing new contracts		-
Financial discounting		138
Rental payments		(257)
Total lease liabilities at December 31, 2019		4,343

The impact on the Group's consolidated statement of profit or loss at December 31, 2019 due to implementation of IFRS 16 is as follows:

<i>(Thousands of euros)</i>		2019
Capitalization of operating leases		257
Amortization of right-of-use in leases		(179)
Financial discounting impact in connection with right-of-use debt		(138)
Corporate income tax		15
Impact of IFRS 16 on consolidated statement of profit or loss		(45)

The impact on the consolidated balance sheet at December 31, 2019 due to implementation of IFRS 16 is as follows:

<i>(Thousands of euros)</i>		Balance at 12/31/2019
Right-of-use in leases		4,283
Deferred tax assets		15
TOTAL ASSETS		4,298
Equity		(45)
Non-current liabilities		4,219
Current liabilities		124
TOTAL EQUITY AND LIABILITIES		4,298

IFRIC 23 Uncertainty over Income Tax Treatments

This interpretation of the IFRS Interpretations Committee deals with the accounting treatment of corporate income tax when tax treatments involve uncertainty which affects application of IAS 12. Given that the current practice of the Group is aligned with this interpretation, application of these criteria did not have any significant impact on the Group's results for the period. In the consolidated balance sheet these balances are presented under "Deferred tax liabilities" or "Other payables to public administrations," depending on whether they relate to deferred tax liabilities or current income tax liabilities, respectively.

b) Standards and interpretations issued by the IASB not yet applicable in the current reporting period

The VE Sonnedix Equityco Group intends to apply the standards, interpretations and amendments to standards issued by the IASB, whose application is not mandatory in the European Union at the date of authorizing the accompanying consolidated financial statements for issue, when they become effective and to the extent applicable to the Group.

Although the Group is still in the process of analyzing their impact, based on the analysis performed to date, the sole director of the Parent estimates that their first-time application will not have a significant impact on its consolidated financial statements, with the exception of the following:

Amendments to IFRS 3 *Business Combinations*

The amendments change the standard's definition of a business in order to help entities determine whether a transaction must be recognized as a business combination or an acquisition of a group of assets. This distinction is very important as the acquirer only recognizes goodwill when a business is acquired.

The new definition of a business emphasizes that the purpose of a business is to provide goods and services for clients which generate income from the investment (such as dividends or interest) or which generate other income from ordinary activities; while the prior definition was based on the generation of profitability in the form of dividends, lower costs or other economic benefits, directly accruing to the investors or other owners, members, or shareholders.

The new definition of a business will be applicable to acquisitions made on or after January 1, 2020.

2.5 Presentation currency of the Group

The accompanying consolidated financial statements are presented in thousands of euros given that the euro is the presentation currency of all Group companies.

2.6 Non-mandatory accounting policies applied

The Group has not applied any non-mandatory accounting policies. Further, the sole director of the Parent prepared these consolidated financial statements taking all the mandatory accounting principles and standards which had a significant effect on them into account. All mandatory accounting policies were applied.

2.7 Critical issues regarding the measurement and estimation of uncertainty

The accompanying consolidated financial statements were prepared using estimates made by the sole director of the Parent to measure the assets, liabilities, income, expenses, and commitments recognized therein. Although these estimates were made based on the best information available at 2019 year end, events may occur in the future that require prospective adjustments (upwards or downwards) in subsequent years.

These estimates basically refer to:

- The evaluation of possible impairment losses on certain assets (Note 4.c)
- The calculation of dismantling provisions for the photovoltaic solar farms (Note 4.i)
- The expected amount to be settled for corporate income tax (Note 4.g).

The calculation of corporate income tax expenses requires interpretation of prevailing tax legislation. Further, the evaluation of expected outcomes for pending controversies and litigation requires the use of significant estimates and judgments.

The Group assesses the recoverability of deferred tax assets based on estimates of future taxable profit and the capacity to generate sufficient profit during the periods in which said deferred taxes can be deducted. Deferred tax liabilities are recognized in accordance with the estimates made with respect to net assets which will not be deductible in the future.

2.8 Comparative information

For comparative purposes, the information included in the accompanying consolidated financial statements for 2019 is presented with the information relating to 2018.

2.9 Changes in the consolidation scope

There were no changes to the Group's consolidation scope during 2019 and 2018 with respect to the prior year.

2.10 Grouping of items

Certain items in the consolidated balance sheet, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated cash flow statement are grouped together to facilitate understanding. However, whenever the amounts involved are material, the information is broken down in the notes to the accompanying consolidated financial statements.

2.11 Consolidation principles

All subsidiaries of the Parent disclosed in Appendix I were considered in the consolidation process.

The Group applied the following criteria to determine the consolidation method applicable to each of its companies:

- The full consolidation method was utilized to consolidate those investees over which the Group has effective control due to holding a majority in their representative and decision-making bodies. At December 31, 2019 and 2018 all companies comprising the VE Sonnedix Equityco Group were consolidated under this method.

The full consolidation method

Consolidation of the operations of the Parent and consolidated subsidiaries was performed in accordance with the following principles:

- The acquisition by the Parent of control over a subsidiary constitutes a business combination, to be measured using the acquisition method. In subsequent consolidations, the investments-own funds of subsidiaries are generally eliminated based on values obtained by applying the acquisition method described below at the date on which control is obtained.
- Business combinations are accounted for using the acquisition method, which requires identification of the acquisition date, calculation of the cost of the combination, and recognition of the identifiable assets acquired and liabilities assumed at their acquisition-date fair values. Consequently, and for certain Group companies, during 2017 and 2016 the Group recognized the fair value of the acquired rights of use (rights not recognized in the individual financial statements of said companies), corresponding to licenses and administrative procedures necessary for development of a project and acquired from third parties. These acquired operating rights correspond to the necessary administrative requirements (concessions, permits, licenses, etc.) which are mandatory for construction and starting up the assets associated with each project. Thus, they are also amortized over the useful life of the project assets.
- Goodwill or the negative consolidation difference is calculated as the difference between the fair values of the recognized assets acquired and liabilities assumed and the cost of the business combination, all as of the acquisition date. Changes subsequent to obtaining control which do not represent a change in control, corresponding to purchase- and sales-transactions with minority interests, will not be considered business combinations, and consequently the differences recognized on first consolidation are not modified.

At the date of preparation of the accompanying consolidated financial statements, the VE Sonnedix Equityco Group had concluded the valuation process for investments made in photovoltaic installations acquired during prior years. In accordance with prevailing international regulations, said valuation must be concluded within twelve months from the date of each acquisition. Thus,

- a) The carrying amounts of assets, liabilities, and identifiable contingent liabilities, which are recognized or adjusted to complete the initial accounting, shall be calculated as if the fair value of the acquisition date had been recognized at said date.
- b) Goodwill or any gains shall be adjusted, effective from the acquisition date, by an amount equal to the adjustments made to the fair value at said date of the assets, liabilities, or identifiable contingent liabilities being recognized or adjusted.
- c) The comparative information presented for the years prior to completing the initial accounting for the business combination shall be presented as if it had been completed at the acquisition date. This includes both additional amortization and depreciation, as well as any other effect recognized in results for the year as a consequence of completing the initial accounting.

The cost of a business combination is the aggregate of:

- the acquisition-date fair value of the assets assigned, the liabilities incurred or assumed, and any equity instruments issued, and
- the fair value of any contingent consideration that depends on future events or fulfillment of predetermined conditions.

The cost of a business combination does not include expenses related to the issuing of any equity instruments or financial liabilities delivered in exchange for the items acquired.

In a business combination achieved in stages, so that prior to the acquisition date (the date on which control is obtained) there already was a previous investment, goodwill or the negative difference corresponds to the difference between:

- the cost of the business combination plus the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, and
- the value of the identifiable assets acquired less the liabilities assumed, determined in the manner described above.

Any gain or loss arising from measurement at fair value at the date control of the prior interest held in the investee is obtained is recognized in the consolidated statement of profit and loss. If said investment in the investee had been measured previously at fair value, any changes in fair value not yet recognized in profit or loss for the year shall be transferred to the consolidated statement of profit and loss. Further, the cost of the business combination is presumed to be the best reference for estimating fair value at the acquisition date of any previously held equity interest.

In the exceptional event of a negative difference arising upon the combination, this will be recognized in the consolidated statement of profit and loss as income.

If at the end of the reporting period in which the business combination occurs it is not possible to complete the valuation processes needed to apply the acquisition method outlined above, the business combination is accounted for provisionally. The provisional amounts thus recognized can subsequently be adjusted within the period required to obtain the necessary information, which can under no circumstances exceed one year. The effects of the adjustments made during said period are accounted for retrospectively, modifying the comparative information if necessary.

Subsequent changes in the fair value of the contingent consideration are adjusted against profit or loss, except where the contingent consideration has been classified as equity, in which case subsequent changes in fair value are not recognized.

All balances, transactions, and results generated between Group companies consolidated under the full consolidation method were eliminated upon consolidation.

The accounting principles and procedures applied by the Group companies were standardized in order to present the consolidated financial statements on a consistent basis.

3. REGULATION OF ENERGY PRODUCTION ACTIVITIES FROM RENEWABLE SOURCES

The VE Sonnedix Equityco Group at present pursues its activities in the market for electricity generation in Spain via the operation of production installations using renewable energies (the Group uses photovoltaic solar technology). At the date of authorization of the accompanying consolidated financial statements all Group investments were located in Spain.

The regulatory framework for the production of energy from renewable sources in Spain is described in detail below:

Electricity Sector Act and Royal Decree Law 9/2013 of July 12

At 2019 and 2018 year end, the main legislative reference for electricity production was Law 24/2013, of December 26, on the Electricity Sector, which repealed Law 54/1997 of November 27.

The law states that the remuneration system for energy from renewable sources, cogeneration, and waste shall be based on the facilities' necessary participation in the market, supplementing, if necessary, market revenue with specific regulated remuneration so that these technologies can compete on an equal footing with the other technologies in the market. This specific complementary remuneration shall be sufficient to reach the minimum level required to cover costs that, unlike with conventional technologies, cannot be recovered in the market, thus allowing for reasonable returns based on a standard installation in each applicable case.

Under this criterion, the specific remuneration, in accordance with the technology, shall consist of:

- A term per unit of installed power to cover the investment costs of a standard installation that cannot be recovered by the sale of energy in the market, and
- A term for the operation to cover the shortfall between operating costs and revenue from participating in the market.

Remuneration shall be calculated based on a standard installation over its regulatory useful life, taking into account:

- Standard revenue from sale of the energy generated, valued at the (estimated) price on the production market,
- Standard operating costs, and
- The standard value of the original investment.

Regulatory periods of six years and half-periods of three years are established to calculate the specific remuneration. The first regulatory period began on July 14, 2013 and ends on December 31, 2019.

In the review corresponding to each regulatory period, all remuneration parameters may be modified. This includes the value used to calculate the reasonable return on the remainder of the regulatory useful life of the standard installations, which shall be set by law. Once the regulatory useful life or standard value of the initial investment in an installation has been recognized, these values may not be revised under any circumstances.

Estimates of revenue from the sale of energy generated, measured at the market production price, will be revised every three years for the rest of the regulatory period based on market price trends and forecasts for operating hours.

In addition, remuneration parameters shall be adjusted based on deviations in the market price from the estimates made for the preceding three-year period. The adjustment method shall be established by regulation and be applicable for the remainder of the installation's useful life.

Reasonable return is defined as the profit generated on a project, calculated, before taxes, based on the average yield in the secondary market of Spanish 10-year bonds and applying the appropriate spread.

The first additional provision of Royal Decree Law 9/2013 sets the reasonable return for facilities entitled to premium remuneration prior to the entry into force of Royal Decree Law 9/2013 as the average return on the secondary market of Spanish 10-year bonds for the 10 years prior to the entry into force of Royal Decree Law 9/2013 plus 300 basis points (equivalent to 7.398% for the first regulatory period).

Further, the law specifies the criteria for priority access and dispatch of electricity from high-efficiency renewable energy sources and cogeneration, as set out in European Union directives.

Royal Decree 413/2014, Order IET/1045/2014, and Order ETU/130/2017

On June 6, 2014, Royal Decree 413/2014 was published, regulating the production of electric energy from renewable energy sources, cogeneration, and waste. Subsequently, on June 20, 2014, Order IET/1045/2014, of June 16, approving the remuneration parameters of standard facilities applicable to certain installations that produce electricity from renewable sources, cogeneration, and waste, was published.

On February 17, 2017, Order IET/130/2017 was published for application to the regulatory half-period beginning January 1, 2017, updating the remuneration parameters of standard facilities applicable to certain installations that produce electricity from renewable sources, cogeneration, and waste.

This new remuneration includes the adjustments to the remuneration parameters based on deviations in the market price from the estimates made for the preceding three-year period. The sole director of the Parent estimated the impact of said adjustment, not considering it significant for the Group.

In the opinion of the sole director of the Parent, the income generated by the Group under the new regulatory framework should be reasonably sufficient to guarantee continuity of its operations.

Royal Decree Law 15/2018

Royal Decree Law 15/2018 was published on October 5, 2018, on urgent measures for energy transition and protection of consumers.

Its sixth and seventh additional provisions establish the basis for determining tax on the value of electric energy produced and the amount of tax payment installments for the years 2018 and 2019, respectively.

Further, its eighth additional provision establishes the basis for reviewing the remuneration parameters applicable to installations that produce electricity from renewable energy sources, cogeneration, and waste as a consequence of the modification of Law 15/2012, of December 27, on tax measures for energy sustainability, and the modification of Law 38/1992, of December 28, on special taxes.

Sixth additional provision (2018)

Tax on the value of electric energy production for 2018 corresponds to the total amount receivable for the tax-paying entity for production and incorporation of electricity in the electric energy system, measured in power station busbars, for each installation during the tax period, less remuneration corresponding to the electricity incorporated in the system during the last natural quarter.

The payment installments for the last quarter will be calculated based on the value of electric energy production measured in power station busbars during the tax period, less the remuneration corresponding to electricity incorporated in the system during the last natural quarter, applying the tax rate established in article 8 of Law 15/2012, of December 27, on tax measures for energy sustainability, and deducting the amounts already paid on the previous installments.

Seventh additional provision (2019)

Tax on the value of electric energy production for 2019 corresponds to the total amount receivable by the tax-paying entity for production and incorporation of electricity in the electric energy system, measured in power station busbars, for each installation during the tax period, less remuneration corresponding to the electricity incorporated in the system during the first natural quarter.

The payment installments will be calculated based on the value of electric energy production measured in power station busbars from the beginning of the tax period until the end of the three, six, nine, or twelve months to which the previous section referred, less the remuneration corresponding to electricity incorporated in the system during the first natural quarter, applying the tax rate established in article 8 of Law 15/2012, of December 27, on tax measures for energy sustainability, and deducting the amounts already paid on the previous installments.

Eighth additional provision

The eighth additional provision stipulates that within a period of three months the Ministry for Ecological Transition, via ministerial order, will approve the remuneration parameters for standard installations applicable to the installations that produce electricity from renewable energy sources, cogeneration, and waste, reviewed taking into account the modifications to Law 15/2012, of December 27, on tax measures for energy sustainability, and modifications to Law 38/1992, of December 28, on special taxes, to which the sixth and seventh additional provisions refer, as well as the final first provision of this Royal Decree Law, respectively.

Royal Decree Law 1/2019

On January 12, 2019 the Official State Gazette ("BOE" in Spanish - Boletín Oficial del Estado) published this Royal Decree Law, the purpose of which is to adapt the responsibilities of the National Markets and Competition Commission ("CNMC" in Spanish - Comisión Nacional de los Mercados y la Competencia) to EU legislation, subsequent to the requirements established by EU authorities.

With respect to the installations that produce energy based on renewable sources, high-efficiency co-generation, and waste with a specific remuneration scheme, said Royal Decree Law stipulates that the value used to calculate the reasonable return on the remainder of the regulatory useful life of a standard installation, which is set by law, can be modified when the corresponding reviews for each regulatory period are performed.

Royal Decree Law 17/2019

On November 22, 2019 Royal Decree Law 17/2019 was published by virtue of which urgent measures were adopted for the necessary adaptation of remuneration parameters which affect the electricity system and further providing a response to the process of terminating activities at thermal power plants.

General remuneration scheme

Based on the provisions of said Royal Decree Law, and without prejudice to the stipulations of the final third provision of Law 24/2013, of December 26, on the Electricity Sector, the reasonable return applicable for the remaining regulatory useful life of standard installations, which will be used for reviewing and updating the remuneration parameters applicable during the second regulatory period (2020-2025) to the installations for production of electric energy from renewable sources, cogeneration, and waste, before taxes, will be 7.09%.

Exceptional remuneration scheme

Exceptionally, the Royal Decree Law introduces a provision, the purpose of which is to guarantee the possibility, for those owners of electric energy production installations based on renewable energies, cogeneration, and waste who had already been granted prime remuneration when Real Decree Law 9/2013, of July 12, became effective, and who desire to avail themselves of it voluntarily, that the reasonable return set for the first regulatory period, ended on December 31, 2019, cannot be modified during the two subsequent and consecutive regulatory periods, from January 1, 2020. In other words, those owners who avail themselves of this scheme will maintain a reasonable return on these installations of 7.398% during the 2020-2031 period, greater than the 7.09% established for the 2020-2025 period, thus avoiding the uncertainty of the 2026-2031 period.

However, availing themselves of this scheme means the early termination of all arbitration or judicial proceedings and the irrevocable renunciation of re-initiating or continuing them, as well as renunciation of any indemnities or compensation which had been recognized as a consequence of such proceedings, subject to accreditation before the General Directorate for Energy and Mining Policy prior to September 30, 2020.

At the date of authorization of the accompanying consolidated financial statements, the sole director of the Parent considers that in the case of those subsidiaries with respect to which no arbitration or judicial proceedings had been initiated prior to accreditation before the General Directorate for Energy and Mining Policy (that is, prior to September 30, 2020), the aforementioned exceptional remuneration scheme will be applied. Further, given that for the remaining subsidiaries which are involved in ongoing judicial procedures with the public administration, arising from the prior partners, there is no certainty regarding the remuneration scheme they will avail themselves of in the end, the sole director authorized the accompanying consolidated financial statements on this basis.

Order TED/171/2020:

On February 24, 2020 ministerial order TED/171/2020 was published, updating the remuneration parameters applicable to all installations engaged in the production of energy based on renewable sources, cogeneration, and waste with the right to receive specific remuneration. Said order is applicable for the regulatory period starting on January 1, 2020.

4. ACCOUNTING POLICIES AND MEASUREMENT STANDARDS

The main measurement standards utilized by the Group in the preparation of the 2019 consolidated financial statements were the following:

a) *Intangible assets (Note 5)*

As a general rule, intangible assets are initially measured at acquisition or production cost. They are subsequently measured at cost less accumulated amortization and impairment losses, if any. Further, intangible assets are amortized over their useful lives.

Operating rights

As stipulated in prevailing international regulations, the Group performed an analysis of the fair values of the assets acquired and liabilities assumed, recognizing the resulting values as the carrying amounts. Thus, as indicated in Note 2.11 to the accompanying consolidated financial statements, the Group recognized the fair value of those operating rights acquired, and not recognized in the balance sheets of the acquired companies, in the consolidated balance sheet (unless the acquiring entity and acquired entity were merged by absorption). Said assets are amortized on a straight-line basis over the useful life of the assets associated with the corresponding photovoltaic solar installation, which is 18 years, counting from the start-up date of the corresponding installation. In summary, said assets correspond to the acquisition price paid to third parties for development of a project until the acquisition date.

Other intangible assets

In addition, the Group mainly recognized the amounts settled for rights of way in connection with electric energy under this heading. These rights are amortized on a straight-line basis over the contracted term for operations. The Group amortizes its other intangibles assets on a straight-line basis over 35 years.

Intangible assets are derecognized as soon as they are disposed of or no longer in use, or when they are no longer expected to generate economic benefits.

The difference between the amount which is obtained from an intangible asset and its carrying amount, net of sales costs, determines any gains or losses upon disposal, and is recognized in the consolidated statement of profit and loss for the year to which they relate.

b) *Property, plant, and equipment (Note 6)*

PP&E items are initially measured at acquisition or production cost, subsequently reduced by the corresponding accumulated depreciation and any impairment losses, in accordance with the criteria described below.

Upkeep and maintenance costs relating to property, plant, and equipment are taken to the consolidated statement of profit and loss for the period in which they are incurred. However, costs incurred to improve items which contribute to increasing capacity or efficiency, or which extend the useful life of an asset, are capitalized as a greater cost of the related asset.

At the end of the useful life of some of the photovoltaic solar farms the Group must dismantle them. At initial measurement of PP&E items, the Group estimates the current value of the future dismantling, retirement, and restoration costs, increasing the cost of the corresponding asset by the discounted dismantling cost. The Group recognizes a provision as a balancing entry for said valuation. This provision is also financially discounted in subsequent periods (Note 19).

The Group depreciates its PP&E items on a straight-line basis over their respective estimated useful lives, broken down as follows:

	Years of estimated useful life
Plant	18

The useful life indicated is counted from the start-up of the installations (regardless of when the asset was acquired by the Group).

PP&E items are derecognized as soon as they are disposed of or no longer in use, or when they are no longer expected to generate economic benefits. The difference between the amount which is obtained from a PP&E item and its carrying amount, net of sales costs, determines any gains or losses upon disposal, and is recognized in the consolidated statement of profit and loss for the year to which they relate.

c) Impairment of intangible assets and property, plant, and equipment (Notes 5 and 6)

At each consolidated balance sheet date, the Group reviews the carrying amounts of its intangible assets and PP&E items to determine whether they have suffered any impairment losses. In the case of assets with an indefinite useful life and intangible assets which have not been put to use, this process is carried out at least at each annual closing date. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash inflows that are independent of those from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The cash-generating units correspond to each of the projects being developed by the Group, that is, to each solar farm.

The recoverable amount is considered to be the greater of market value less necessary sales costs or value in use, determined as the present value of estimated future cash flows. The Group generally uses value in use as the parameter for calculating impairment losses unless there is evidence of a purchase-sale transaction, in which case the reference value is the transaction price. It is also worth noting that, if the asset is identifiable and does not generate cash flows independently, the recoverable amount of the cash-generating unit to which the asset belongs is calculated.

In order to quantify value in use, the Group makes estimates for each cash-generating unit generally using a time period corresponding to the useful life of the assets and, based on the most recent budget forecasts and business plans approved by the sole director of the Parent, prepares the forecasts for future cash flows before taxes using the best estimates available for income and costs relating to the cash-generating units. Further, the Group also uses growth rates and macroeconomic hypotheses reasonably based on both corporate forecasts which, based on knowledge of the sector, take past experience into account, and future expectations of the business.

In contrast, to determine the present value of said cash flows, a discount rate is used, before taxes, which reflects the business's cost of capital and the geographical area where it is conducted. The calculation further takes into account the current cost of money and the risk premiums generally used by analysts and investment banks for each specific business and geographical zone. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense in the consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, which cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is immediately recognized as income, except in the case of goodwill on consolidation, the impairment losses of which cannot be reversed.

d) Leases

As indicated in Note 2.4 to the accompanying consolidated financial statements, the VE Sonnedix Equityco Group adopted the new IFRS 16 for its entire lease portfolio on the transition date, that is, January 1, 2019.

As established in IFRS 16, at the moment of signing a contract, the Group must evaluate whether it is, or includes, an implicit lease, that is, whether the contract transfers the right to control use of an identified asset for a period of time in exchange for consideration or whether a service is being received.

In those cases in which it concludes there is a lease contract in which the Group acts as lessee, the expected lease liabilities arising from future lease payments must be estimated and recognized, including the right-of-use assets. This accounting policy is applied to all lease contracts except for those which are short term (less than 12 months) and those in which the asset is of low value.

All lease contracts to which the Group is party correspond to the land where the photovoltaic installations being operated are located.

i. Right-of-use assets (Note 5)

Right-of-use assets are recognized at the inception date of the lease (that is, the date on which the underlying asset is available for use). The right-of-use assets are measured at acquisition cost, less any accumulated depreciation and impairment losses, and adjusted by any new measurement of lease liabilities. The cost of right-of-use assets includes the carrying amounts of lease liabilities recognized, direct initial costs incurred, and lease payments made prior to or on the lease inception date less the lease incentives received. The right-of-use assets are depreciated on a straight-line basis over the term of the lease or, if this is shorter than their estimated useful life and the Group has the unilateral right to extending the lease, over said useful life.

The estimated useful life of the leased assets relating to the land on which the photovoltaic installations are located is determined based on the duration of the regulatory useful life of said installations.

If ownership of the leased asset is transferred to the Group at the end of the lease term or the cost is reflected in the exercise of a purchase option, depreciation is calculated utilizing the estimated useful life of the asset.

The right-of-use assets are also subject to impairment (Notes 4.a and 4.c).

ii. Lease liabilities (Note 12.2)

Lease liabilities are recognized at the inception date of the lease, measured at the present value of the lease payments to be made during the lease term. The lease payments include fixed payments less any lease incentive to be collected, variable payments which depend on an index or rate, and amounts expected to be paid in connection with guarantees relating to residual value. Lease payments also include the exercise price of the purchase options reasonably certain to be exercised.

The payments for variable leases which do not depend on an index or a rate are recognized as expenses for the period in which the event or circumstance triggering payment occurs.

When calculating the present value for lease payments, the Sonnedix España Group utilizes its lease debt ratio at the inception date as the implicit interest rate of the lease is not easily determined. Subsequent to the inception date, the carrying amounts of lease liabilities are increased to reflect the accumulation of interest, and reduced by the lease payments made. In addition, the carrying amounts of the lease liabilities are remeasured if there is any modification, such as a change in the lease term or lease payments (for example, changes in future payments resulting from a change in the index or rate utilized to determine said lease payments) or a change in the evaluation of a purchase option for the underlying asset.

The Group's lease liabilities are included under other non-current and current borrowings in the accompanying consolidated balance sheet. Likewise, these financial liabilities accrue interest which is recognized under "Other finance costs" in the accompanying consolidated statement of profit and loss.

In 2018, all the Group's leases, based on the stipulations of IAS 17, were classified as operating leases given that their conditions established the transfer of risks and benefits inherent to ownership of the leased asset. Thus, during 2018 the accrued expenses arising from the operating lease agreements were recognized in the consolidated statement of profit or loss.

e) Financial instruments (Notes 7 and 12)

i. Financial assets

Classification

At initial recognition financial assets are classified in accordance with the following categories based on their nature and purpose: at fair value through profit and loss; held-to-maturity investments; available-for-sale financial assets; and loans and receivables. Held-to-maturity investments and loans and receivables are measured at amortized cost applying the effective interest rate method, less any impairment losses. The remaining categories are measured at fair value. The financial assets held by the Group are classified according to the following categories:

- Loans and receivables: financial assets from the sale of goods and rendering of services corresponding to trade transactions; or those that do not have a commercial origin, are not equity instruments or derivatives, but are associated with fixed or determinable payments, and are not quoted on active markets.

Initial measurement

Financial assets are initially recognized at the fair value of the consideration paid, plus directly attributable transaction costs.

Measurement after recognition

Loans and receivables are measured at amortized cost. At least at year end the Group tests its financial assets not measured at fair value for impairment. Objective evidence of impairment is deemed to exist when the recoverable amount of a financial asset is less than its carrying amount. When impairment occurs, it is recognized in the consolidated statement of profit or loss.

Specifically, with respect to impairment losses relating to trade and other receivables, the criteria used by the Group to calculate the corresponding adjustments, if any, is to perform an individualized analysis at the end of each reporting period with a view to identifying possible accounts receivable that may be impaired.

The Group derecognizes financial assets when the contractual rights to the cash flows from the financial asset expire or are transferred, which implies substantially transferring all the risks and rewards incidental to ownership of the financial asset; this is the case in firm asset sales, trade receivable factoring transactions in which the Group retains neither credit risk nor interest rate risk, sales of financial assets with an agreement to repurchase them at their fair value, and securitizations in which the transferring entity neither retains subordinated financing nor grants any form of guarantee nor assumes any other type of risk.

ii. Financial liabilities

Financial liabilities correspond to those trade and other payables recognized by the Group that have arisen from the purchase of goods and services in the normal course of the Group's business or those which, while not having commercial substance, cannot be classified as derivative financial instruments.

Trade and other payables are initially measured at the fair value of the consideration received, adjusted by directly attributable transaction costs. Subsequently, said liabilities are measured at amortized cost.

In contrast, current and non-current borrowings are presented at their repayment value. Any implicit interest paid and included, both in the nominal value and repayment value, is considered a direct deduction to the nominal value of the debt. Said interest is calculated by using financial methods based on the duration of the financial borrowings. When the debt matures, the principal liability is derecognized. Any difference between the liability recognized and the amount paid is included in the consolidated statement of profit and loss under finance expenses.

The Group derecognizes financial liabilities once the obligations that gave rise to them have been extinguished.

The fair value of financial instruments recorded as assets or liabilities and not recognized at fair value does not differ significantly from their carrying amount.

f) Cash and cash equivalents (Note 9)

This heading of the consolidated balance sheet includes cash in hand, sight deposits, and other highly liquid short-term investments which mature in less than 3 months, can be readily converted into cash, and are not exposed to the risk of changes in value.

g) Corporate income tax (Note 13)

Income tax payable or receivable comprises current tax payable or receivable as well as deferred tax expenses or income.

Current tax is the amount settled by the Group in respect of the corporate income tax returns filed for the period. Deductions and other tax relief applicable to payable taxes, excluding withholdings and payments on account, are accounted for as a reduction in current tax. Similarly, tax loss carryforwards from prior years effectively applied in the current reporting period also reduce tax payable.

Deferred tax expense or income corresponds to the recognition and cancellation of deferred tax assets and liabilities. These include the temporary differences, identified as those amounts expected to be payable or recoverable, arising from the difference between the carrying amounts of assets and liabilities and their tax bases, as well as any unused tax loss carryforwards and unused tax credits. These amounts are measured at the tax rates that are expected to apply when the corresponding temporary differences or tax credits are expected to be realized or settled.

Deferred tax liabilities are recognized for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss), and those associated with investments in subsidiaries, associates, and jointly controlled entities in which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred tax assets are only recognized to the extent that it is considered probable that the Group will obtain taxable profits in the future against which they can be utilized.

Deferred tax assets and liabilities arising from transactions involving direct credits or debits to equity headings are also accounted for with a balancing entry in equity.

Recognized deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made when there are doubts as to their future recoverability. Similarly, at each reporting date, the Group reassesses deferred tax assets not recognized in the consolidated balance sheet, subsequently recognizing them to the extent that it has become probable that taxable profit will be available against which they can be utilized.

From January 1, 2018 the Group companies started to file their tax returns under the special tax consolidation regime regulated by Law 27/2014, of November 27, on corporate income tax, Chapter VI, with VE Sonnedix Equityco, S.L. (sole shareholder company) as the tax representative of the tax group made up of all the companies listed in Appendix I, except for those subsidiaries whose tax address is outside Spanish territory (only the Luxembourg company VE Sonnedix Finance, S.A.), which file tax returns individually in accordance with the applicable tax regulations.

Filing tax returns under the special tax consolidation regime involves determining the Group's tax result taken as a whole together with any deductions and tax rebates. For tax purposes, a group of companies is understood to be made up of the Parent and the subsidiaries located in Spanish territory in which the Parent directly or indirectly holds at least 75% of their share capital and who meet the requirements established for inclusion in this special regime.

The distribution of the tax burden is carried out as agreed upon by all the companies that belong to the tax consolidation group, respecting the stipulations of the accounting standards issued by the ICAC.

h) Income and expenses (Note 15)

Income and expenses are recognized in accordance with the accruals principle, that is, at the moment the goods or service transactions represented by them take place, regardless of when actual payment or collection occurs. Said income is measured at the fair value of the consideration received less discounts and taxes.

Sales revenue is recognized when the Company has transferred the significant risks and rewards incidental to ownership of the sold item to the buyer, and retains neither continuing managerial involvement nor effective control over the goods sold.

Revenue from the rendering of services is recognized by reference to the stage of completion of the transaction at the consolidated balance sheet date, provided the outcome of the transaction can be estimated reliably.

Interest income on financial assets is recognized using the effective interest rate method, while dividends are recognized when the right to receive them is established. At any rate, interest and dividend income accrued on financial assets after their date of acquisition are recognized as revenue in the consolidated statement of profit and loss.

All the Group's revenue is generated through the sale of electric energy produced by the solar farms it owns.

i) Provisions and Contingencies (Note 19)

In drawing up the consolidated financial statements, the Parent's sole director distinguished between:

- Provisions: balances covering present obligations arising from past events, the settlement of which is likely to cause an outflow of resources of uncertain amount and/or timing.
- Contingent liabilities: possible obligations that arise as a consequence of past events, future materialization of which depends on one or more future events occurring not within the Group's control.

The consolidated balance sheet includes all provisions for which it is considered more likely than not that the corresponding obligation will have to be settled. Contingent liabilities are not recognized in the consolidated balance sheet, but rather are disclosed in the accompanying notes, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best estimate possible for the amount required to settle or transfer the obligation, taking into account the information available concerning the obligating event and its consequences, and recognizing a finance expense for the adjustments which accrue when updating said provisions in accordance with estimates made at each reporting date.

With respect to the suspension of VAT for electricity production described in Note 3 to the accompanying consolidated financial statements, at December 31, 2019 the Group recognized the corresponding provision for this item in an amount of 375 thousand euros, as the sole director of the Parent considers that said suspension represents a real and probable tax obligation (Note 15.d).

j) Environmental assets and liabilities

Environmental assets are classified as those the Group utilizes in its activities over a long period of time whose primary purpose is to minimize the environmental impact of these activities and protect or improve the environment, including those assets designed to reduce or eliminate future contamination.

The Group's activities, by their very nature, do not have a significant impact on the environment. In sum, given the business activities performed by the Group, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be material in respect of its equity, financial position or performance. Therefore, no specific disclosures relating to environmental issues are included in these notes to the accompanying consolidated financial statements, except for those relating to the provision described in Note 19.

k) Transactions with related parties (Note 14)

The Group conducts all related-party transactions on an arm's length basis. In addition, transfer prices are duly documented so that the Parent's sole director considers that there are no related significant risks that could give rise to material liabilities in the future. The transactions carried out with Group companies were eliminated upon consolidation.

l) Current and non-current balances

Assets and liabilities are classified in the consolidated balance sheet as current and non-current. To this end, current assets and liabilities include: the assets and liabilities associated with the Group's operating cycle to the extent it is expected that they will be sold, consumed, realized or settled within the normal course of that cycle; other assets and liabilities that are expected to mature or be sold or settled within one year; assets and liabilities that are held for trading, other than non-current derivatives; and cash and cash equivalents. All other assets and liabilities are classified as non-current.

As an exception to the above, all deferred tax assets and liabilities are recognized as non-current assets and liabilities.

m) Information by segments (Note 20)

The operating segments have been determined using the "management approach," which requires the presentation of segments on the basis of internal reports about the components of the Group that are analyzed regularly by the Group's "chief operating decision-maker" with a view to deciding upon which resources must be assigned to the segment and evaluating profitability.

n) Consolidated cash flow statement

The following terms are used in the consolidated cash flow statement with the meanings indicated below:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments subject to insignificant risk of changes in value
- Operating activities: the principal revenue-producing activities of the entity and other activities that cannot be classified as investments or financing
- Investing activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents
- Financing activities: activities resulting in changes in the size and composition of equity and liabilities that do not form part of operating activities.

o) Consolidated statement of changes in equity

The accompanying consolidated statement of changes in equity shows the movements in consolidated equity accounts arising during the year. This information is in turn broken down into two parts: the consolidated statement of comprehensive income and the consolidated statement of changes in equity. The main features of the disclosures included in both statements are described below:

Consolidated statement of comprehensive income

This statement presents the income and expenses generated by the Group as a result of its business activity in the year and a distinction is made between the income and expenses recognized in the consolidated statement of profit and loss for the period and other income and expenses recognized, in accordance with current regulations, directly in equity.

Accordingly, these statements present:

- a) Profit as per the consolidated statement of profit or loss
- b) Income and expenses which must be directly recognized in consolidated equity as required by measurement standards
- c) The transfers made to the consolidated statement of profit or loss, in keeping with adopted measurement standards
- d) The corresponding tax effect, if any, of the letters b) and c) above
- e) Total recognized income and expense, calculated as the sum of all the above.

Consolidated statement of changes in equity

The consolidated statement of changes in equity presents all the movements in consolidated equity accounts, including those arising from changes in accounting criteria and corrections of misstatements, if any. This statement therefore reconciles the carrying amounts at the start and end of the period of all the items composing consolidated equity, grouping the movements into the following categories in accordance with their nature:

- a) Total recognized income and expense: shows the aggregate total of the aforementioned items recognized in the consolidated statement of comprehensive income
- b) Transactions with shareholders: shows the changes in consolidated equity arising from subscriptions and redemptions carried out, if any, during the year
- c) Other changes in equity: shows the remaining items recognized in consolidated equity, such as appropriation of results, transfers among equity items, and any other increase or decrease in consolidated equity.

5. INTANGIBLE ASSETS

The heading "Operating rights" in the accompanying consolidated balance sheet records the net cost of operating rights acquired by both acquisition of companies as well as the purchase of associated photovoltaic installations, amounting to 6,916 thousand euros at December 31, 2019 (2018: 7,981 thousand euros).

Likewise, "Other intangible assets" records the intangible asset corresponding to rights-of-way in connection with the land used for the Campillos photovoltaic project, which comprises 18 installations with a capacity of 100 KW each, located in the municipality of Campillos (Málaga), and amounting to 190 thousand and 198 thousand euros at 2019 and 2018 year end, respectively.

In addition, and in accordance with the stipulations of IFRS 16 (Note 2.4), the Group's consolidated balance sheet includes the right-of-use assets arising from the lease agreements for the land not owned by the Group on which the photovoltaic installations are located. The amount recognized by the Group at the beginning of 2019 for said right-of-use assets totaled 4,462 thousand euros (Note 2.4).

Thus, the breakdown for this heading in the consolidated balance sheet, as well as a summary of transactions carried out during 2019 and 2018, follows:

2019

	Thousands of euros				
	Beginning Balance	Additions IFRS 16 01.01.2019	Additions	Retirements	Closing balance
Cost:					
Operating rights	10,271	-	-	-	10,271
Right-of-use in leases (Note 2.4)	-	4,462	-	-	4,462
Other intangible assets	216	-	-	-	216
Total cost:	10,487	4,462	-	-	14,949
Accumulated amortization					
Operating rights	(2,290)	-	(1,065)	-	(3,355)
Right-of-use in leases	-	-	(179)	-	(179)
Other intangible assets	(18)	-	(8)	-	(26)
Total accumulated amortization	(2,308)	-	(1,252)	-	(3,560)
Impairment losses	-	-	-	-	-
Total intangible assets (net)	8,179	4,462	(1,252)	-	11,389

2018

	Thousands of euros				
	Beginning Balance	Additions	Retirements	Transfers	Closing balance
Cost:					
Operating rights	10,271	-	-	-	10,271
Other intangible assets	216	-	-	-	216
Total cost:	10,487	-	-	-	10,487
Accumulated amortization					
Operating rights	(1,225)	(1,065)	-	-	(2,290)
Other intangible assets	(10)	(8)	-	-	(18)
Total accumulated amortization	(1,235)	(1,073)	-	-	(2,308)
Impairment losses	-	-	-	-	-
Total intangible assets (net)	9,252	(1,073)	-	-	8,179

a) Additions, retirements, and transfers of assets for operations

At January 1, 2019 the Group recognized an amount of 4,462 thousand euros in its consolidated balance sheet for the right-of-use assets arising from the lease agreements by virtue of applying the modified retrospective method established in IFRS 16 (Note 2.4).

There were no additions, retirements or transfers with respect to the Group's intangible assets during 2018.

b) Amortization and impairment losses

The charge to the consolidated statement of profit or loss for the year 2019, corresponding to amortization of intangible assets, amounted to 1,252 thousand euros (2018: 1,073 thousand euros) (Note 15.e).

The estimated useful life of the technical installations and consequently the useful life of the operating rights is set at 18 years counting from the date on which each of the installations are started up.

In addition, "Other intangible assets" includes the rights-of-way corresponding to acquired companies, amortized over a period of 35 years.

At December 31, 2019 and 2018 the Group assessed its intangible assets for the presence of any indications, both external as well as internal, which would require the performance of an impairment test. Subsequent to this analysis, the sole director of the Parent considered that no such indications were detected, thus concluding that there was no need to review the carrying amounts of intangible assets or perform any related impairment tests at December 31, 2019 and 2018.

At 2019 and 2018 year end, the Group had not fully amortized any of its intangible assets.

c) Other information

The operating rights recognized in the accompanying consolidated balance sheet represent the fair value of the acquired operating rights.

At December 31, 2019 and 2018, the Group does not have any intangible assets in progress.

All of the Group's intangible assets are directly associated with operations at December 31, 2019 and 2018.

Furthermore, at December 31, 2019 and 2018 there were no intangible assets encumbered by guarantees, and neither had the Group received any subsidies for the acquisition of the assets recognized.

Finally, at 2019 and 2018 year end the Group had no investment commitments with respect to intangible assets.

6. PROPERTY, PLANT, AND EQUIPMENT

The breakdown for this heading in the consolidated balance sheet, as well as a summary of transactions carried out during 2019 and 2018, follows:

2019

	Thousands of euros				
	Beginning Balance	Additions	Retirements	Transfers	Closing balance
Cost:					
Land and buildings	71	-	-	-	71
Plant	69,740	99	-	-	69,839
Total cost:	69,811	99	-	-	69,910
Accumulated depreciation					
Plant	(14,607)	(7,206)	-	-	(21,813)
Total accumulated depreciation	(14,607)	(7,206)	-	-	(21,813)
Impairment losses	-	-	-	-	-
Total net PP&E	55,204	(7,107)	-	-	48,097

2018

	Thousands of euros				
	Beginning Balance	Additions	Retirements	Transfers	Closing balance
Cost:					
Land and buildings	71	-	-	-	71
Plant	69,740	-	-	-	69,740
Total cost:	69,811	-	-	-	69,811
Accumulated depreciation					
Plant	(7,405)	(7,202)	-	-	(14,607)
Total accumulated depreciation	(7,405)	(7,202)	-	-	(14,607)
Impairment losses	-	-	-	-	-
Total net PP&E	62,406	(7,202)	-	-	55,204

The heading for "Plant" in the accompanying consolidated balance sheet at December 31, 2019 and 2018 mainly reflects the costs of the photovoltaic solar installations disclosed in Note 1 to the accompanying consolidated financial statements.

In addition, the Group recognized the cost of the land on which the photovoltaic installation of the Madridanos project is located under "Land and buildings."

a) Additions, retirements, and transfers

Additions were recognized in 2019 under "Plant" amounting to 99 thousand euros in connection with the improvements the Group carried out at the photovoltaic installation of the Campillos project.

There were no additions, retirements, or transfers with respect to PP&E items during 2018.

b) Depreciation and impairment losses

The charges to the consolidated statement of profit and loss for 2019 and 2018 corresponding to depreciation of PP&E amounted to 7,206 thousand and 7,202 thousand euros, respectively (Note 15.e).

Recognition of the depreciation allowance corresponding to "Plant" is carried out over a period of 18 years counting from the start-up of each installation.

At December 31, 2019 and 2018 the Group assessed its PP&E items for the presence of any indications, both external as well as internal, which would require the performance of an impairment test. Subsequent to this analysis, the sole director of the Parent considered that no such indications were detected, thus concluding that there was no need to review the carrying amounts of PP&E items or perform any related impairment tests at December 31, 2019 and 2018.

At 2019 and 2018 year end, the Group had not fully depreciated any significant PP&E items.

c) Other information

At December 31, 2018 and 2018 the Group did not recognize any amounts for PP&E in progress.

All of the Group's PP&E items are located in Spain and are directly associated with operations at December 31, 2019 and 2018.

At 2019 and 2018 year end the Group had no significant investment commitments with respect to PP&E.

It is the Group's policy to subscribe insurance policies to cover the potential risks to which its PP&E items are exposed. At 2019 and 2018 year end the potential risks were fully covered by the contracted insurance.

7. NON-CURRENT AND CURRENT FINANCIAL INVESTMENTS

The breakdown of financial investments (assets) at December 31, 2019 and 2018 is as follows:

	Thousands of euros	
	2019	
	Non-current financial instruments	Current financial instruments
Financial investments	5	2,879
	5	2,879

	Thousands of euros	
	2018	
	Non-current financial instruments	Current financial instruments
Financial investments	7	3,312
	7	3,312

Current financial investments

At December 31, 2019, the Company recognized 2,879 thousand euros under the current balance sheet heading for financial investments (2018: 3,312 thousand euros), mainly corresponding to the balances held with financial entities which constitute a debt service reserve fund and maintenance reserve fund.

Said items represent the restricted cash balances which will be maintained by the subsidiaries in accordance with the requirements established in the framework contracts for the secured bond issue ("Céfalo Bond") as a guarantee for payments to be made in the coming months (Note 12.1). The aforementioned restricted accounts bear interest at market rates.

8. TRADE RECEIVABLES

At December 31, 2019 "Trade receivables" reflects the amount owed as a consequence of selling electric energy produced at the photovoltaic installations, amounting to 3,246 thousand euros (2018: 2,686 thousand euros). The collection of said amounts will be made over the coming 12 months.

At December 31, 2019 and 2018 no impairment losses were recognized on these accounts receivable.

9. CASH AND CASH EQUIVALENTS

The breakdown of this consolidated balance sheet heading at December 31, 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Cash and cash equivalents	1,944	2,076
	1,944	2,076

This heading of the consolidated balance sheet includes cash in hand, sight deposits, and other highly liquid short-term investments which mature in less than 3 months, can be readily converted into cash, and are not exposed to the risk of changes in value.

As a general rule, the cash balances accumulated bear interest at market rates. There are no significant restrictions for use of cash and cash equivalents apart from the cash balance recognized for the projects that are already operational (Note 7).

Likewise, neither are there any significant differences between the carrying amounts and market values of the cash and cash equivalents held.

10. FINANCIAL RISK MANAGEMENT POLICY

To manage its financial risk, the VE Sonnedix Equityco Group uses economic forecasts to review its business plans and evaluate the relationship between the exposure and present value of cash flows generated by an investment, as well as taking an accounting approach to assess the various risk situations dynamically and statically.

The sole director of the Parent has established the necessary control mechanisms with respect to credit risk and liquidity risk.

The general exposure to adverse situations in which negative deviations may arise for the results or financial performance of the Group, consequently generating risks which must be managed to mitigate their possible effects, is as follows:

- **Liquidity risk**
- **Credit risk**
- **Other market risks: price risk**

The monitoring and control of these risks is performed periodically as described below:

a) **Liquidity risk**

Liquidity risk is defined as the risk that a company will not be able to service its commitments as a result of adverse conditions in the debt and/or equity markets that prevent or hinder its capital raising efforts.

The Group manages liquidity risk by maintaining sufficient cash balances to enable it to negotiate upcoming refinancing agreements on the best possible terms and to cover its short-term cash outlays, thereby avoiding the need to raise funds on disadvantageous terms. Liquidity risk coverage is considered adequate when an entity can avail itself of a minimum amount of available financing equivalent to six months of debt servicing.

b) **Credit risk**

Within the area of financial transactions, credit risk arises as a result of the counterparty failing to meet the contractually established obligations. When contracted operations can generate counterparty risk for certain subsidiaries, the Group's policy is to contract said operations with counterparties who enjoy a credit rating equal to or better than those of the Sonnedix Group.

The Group held accounts receivable from highly solvent companies during 2019 and 2018, such as:

- Electricity distribution companies which purchase the electricity produced, though it is invoiced to and collected from the CNMC and the market agents.

As of January 1, 2014, all participants in the settlement system must bear the temporary imbalances between revenue and electricity system costs. Thus, the CNMC may not pay 100% of the monthly settlements, so that the Group companies, as recipients of system costs, become the parties financing these temporary imbalances.

At December 31, 2019, the CNMC settled 78.85% (2018: 87.33%) of the specific regulated remuneration for investment and operation accrued until the month of October.

Thus, the sole director of the Parent considers the likelihood of said credit risk materializing as remote. In addition, the sole director considers that, taking into account an annualized perspective of cash flows generated by the projects, working capital at present available to the Group, together with the expected cash flows from coming months, will be sufficient to meet financial obligations contracted in the short term.

At year end, there were no significant financial assets in arrears for which no impairment losses had been recognized.

c) Other market risks: price risk

In addition to the financial risks described in the previous section, there are operational risks which are mainly related to the risk of changes in the sales prices of electric energy generated.

As established in Note 3 to the accompanying consolidated financial statements, the remuneration system for energy from renewable sources, cogeneration, and waste shall be based on the facilities' necessary participation in the market, supplementing, if necessary, market revenues with specific regulated remuneration, thereby allowing these technologies to compete on an equal footing with the other technologies in the market. This specific complementary remuneration shall be sufficient to reach the minimum level required to cover costs that, unlike with conventional technologies, cannot be recovered in the market, thus allowing for reasonable returns based on a standard installation in each applicable case.

11. EQUITY

a) Share capital

At December 31, 2019 and 2018 VE Sonnedix Luxembourg Holdco 2 SARL is the sole shareholder of the Parent, holding 3 thousand euros of share capital represented by 3,000 participation units at a nominal value of one euro each.

The ultimate purpose of the share capital is none other than to allow for financing the development plan designed by the sole director of the Parent and ensure an appropriate remuneration policy for the shareholder.

b) Other owner contributions

During 2018 VE Sonnedix Equityco, S.L.U. received the following owner contributions from its sole shareholder with a view to strengthening the financial position and equity of the Parent:

- Owner contribution of 246 thousand euros on February 2, 2018.
- Owner contribution of 66 thousand euros on May 7, 2018.

On September 26, 2018 the Parent reimbursed owner contributions to VE Sonnedix Luxembourg Holdco 2 SARL amounting to 107 thousand euros. Said reimbursements were carried out by delivering cash.

On September 7, 2019 the Parent received an owner contribution in the amount of 99 thousand euros.

On June 11, 2019 VE Sonnedix Equityco, S.L.U. reimbursed owner contributions to VE Sonnedix Luxembourg Holdco 2 SARL in an amount of 104 thousand euros. Said reimbursement was carried out by delivering cash.

c) **Reserves in consolidated companies**

During 2019, all of the Group's consolidated results for 2018 (losses) were distributed with a charge against reserves in consolidated companies amounting to 2,160 thousand euros.

Likewise, during 2018, all of the Group's consolidated results for 2017 (losses) were distributed with a charge against reserves in consolidated companies amounting to 4,849 thousand euros.

12. FINANCIAL LIABILITIES

The breakdown of the Group's financial liabilities at December 31, 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Non-current financial liabilities:		
Trade and other payables:		
Bonds and other marketable securities (Note 12.1)	60,378	63,448
<i>Bonds and other marketable securities (principal)</i>	<i>60,949</i>	<i>64,083</i>
<i>Arrangement fees</i>	<i>(571)</i>	<i>(635)</i>
Other borrowings (Note 12.2)	4,219	-
Borrowings from group companies and associates (Notes 12.3 and 14)	12,103	13,256
	76,700	76,704
Current financial liabilities:		
Trade and other payables:		
Bonds and other marketable securities (Note 12.1)	3,134	4,050
Other borrowings (Note 12.2)	124	-
Payables to group companies and associates (Notes 12.3 and 14)	305	618
Other accounts payable (Note 12.4)	150	131
	3,713	4,799

12.1 **Bonds and other marketable securities**

On July 20, 2017 VE Sonnedix Finance, S.A. agreed upon a secured bond issue ("Céfalo Bond"), mainly used to refinance the debts of Group companies. With the funds obtained on that same day, the Group's subsidiaries canceled the financing contracts effective until that date with Caixabank, a financial entity.

The face value of the issue was 74,000 thousand euros; repayable in six-monthly periods, with the last installment due on December 31, 2036. The bond bears interest at an annual nominal rate of 3.429%, repayable on a six-monthly basis. The first principal and interest payments were settled on January 2, 2018. Subsequent payments fall due on June 30 and December 31 of each year.

At December 31, 2019 the Group recognized balances of 60,949 thousand and 3,134 thousand euros under "Bonds and other marketable securities," corresponding to non-current and current balances, respectively. In addition, at 2019 year end an amount of 571 thousand euros was recognized for debt arrangement expenses, calculated by netting the nominal amounts of non-current bonds and other marketable securities.

At December 31, 2018 "Bonds and other marketable securities" included recognition of 64,083 thousand and 4,050 thousand euros, corresponding to non-current and current balances, respectively. In addition, at 2018 year end an amount of 635 thousand euros was recognized for debt arrangement expenses, calculated by netting the nominal amounts of non-current bonds and other marketable securities.

The interest accrued by the Group corresponding to the Céfalo Bond financing during 2019 amounted to 2,303 thousand euros (2018: 2,438 thousand euros). All of this amount was settled during 2019, with the Group companies consequently not recognizing accrued interest payable at year end (Note 15.f).

Likewise, during 2019 the Group amortized principal on the Céfalo Bond in the amount of 4,050 thousand euros (2018: 5,868 thousand euros).

The participation units of the subsidiaries that guarantee the bonds have been pledged, making them liable for the obligations arising from the bond issue in respect of the full amount of their equity. The breakdown of guarantor companies is shown below:

Guarantors	
Parque Eólico de Cubla, S.L.U. Sonnexix España Holdings 3, S.L.U. Sonnexix España SPV VII, S.L.U. Sonnexix España SPV XVII, S.L.U.	Sonnexix España SPV XIX, S.L.U. Sonnexix España SPV XX, S.L.U. Sonnexix España SPV XXVI, S.L.U. VE Sonnexix Equityco, S.L.U.

The bond issue deed establishes early repayment clauses in the event of any non-payment, unless non-payment is due to administrative reasons and payment is made within 3 business days subsequent to the amortization date and the debt service coverage ratio for all companies financed with the bond is less than 1.05. During 2019 and 2018 the Group complied with the minimum financial ratios established in the bond issue contract.

The breakdown by maturity of financial borrowings at December 31, 2019 and 2018 is as follows:

2019

	Thousands of euros						
	2020	2021	2022	2023	2024	2025 and beyond	Total
Bonds	3,134	3,208	3,309	3,417	3,528	47,487	64,083
	3,134	3,208	3,309	3,417	3,528	47,487	64,083

2018

	Thousands of euros						
	2019	2020	2021	2022	2023	2024 and beyond	Total
Bonds	4,050	3,134	3,208	3,309	3,417	51,015	68,133
	4,050	3,134	3,208	3,309	3,417	51,015	68,133

12.2 Other non-current and current borrowings

The breakdown of the Group's other non-current and current financial debt at 2019 and 2018 year end is as follows:

	Thousands of euros	
	2019	2018
Other non-current borrowings	4,219	-
Other current borrowings	124	-
	4,343	-

In accordance with IFRS 16, at 2019 year end the Group recognized a total amount of 4,343 thousand euros under these headings in the consolidated balance sheet for non-current and current financial debt corresponding to the lease agreements (Note 2.4).

12.3 Non-current and current borrowings from group companies and associates

On March 22, 2017, the subordinated loans which were granted to the Group during 2016 by Vela Dutch II, B.V. were ceded to Sonnexix B.V. in accordance with the stipulations of the purchase-sale agreement for participation units and the cession of loans in connection with Sonnexix España Holdings 3, S.L. (previously called Vela Energy Holdings 3, S.L.) (Note 1).

Said loans were contracted during 2016 for an amount of 15,124 thousand euros subsequent to the acquisition of the projects. They mature in 17 years and bear a fixed annual interest rate of 10%. On November 25, 2016 the aforementioned debt was partially canceled in the amount of 2,956 thousand euros, so that at December 31, 2016 an amount of 12,168 thousand euros was pending repayment.

On July 20, 2017 said subordinated loans were subjected to a novation agreement fixing the annual interest rate at 9% until the corresponding maturity dates. On the same day, the subsidiary Parque Eólico de Cubla, S.L. contracted a new subordinated loan with Sonnexix B.V. for an amount of 2,789 thousand euros, maturing on December 31, 2036 and accruing interest at a fixed annual rate of 9%.

During 2019 and 2018 the subsidiaries partially amortized the principal on said loans in the amounts of 1,153 thousand and 1,701 thousand euros, respectively.

Thus, at December 31, 2019 the nominal amount pending repayment to Sonnedix B.V. amounts to 12,103 thousand euros (2018: 13,256 thousand euros). In addition, the Group recognized current interest accrued and pending settlement at December 31, 2019 and 2018 in the amount of 305 and 618 thousand euros, respectively.

Finally, interest accrued during 2019 and 2018 amounted to 1,154 thousand and 1,266 thousand euros, respectively (Note 15.f).

12.4 Other accounts payable

Other accounts payable

At December 31, 2019 the Group recognized an amount of 150 thousand euros (2018: 131 thousand euros) under "Trade and other payables - Other accounts payable" in the accompanying consolidated balance sheet, mainly corresponding to the amounts payable to third parties for operation and maintenance services received for the photovoltaic installations, as well as tax, technical, and legal advisory services, including audit fees.

12.5 Information on average payment periods for suppliers

On February 4, 2015, ICAC ("Institute of Accounting and Auditors of Accounts" - "Instituto de Contabilidad y Auditoría de Cuentas" in Spanish) published its Resolution of January 29 on information to be included in the financial statements in connection with the average supplier payment periods in commercial transactions, the objective of which is to comply with the expressly stated obligations in Law 31/2014, of December 3, which repealed the previously applicable legislation in this matter (ICAC Resolution of December 29, 2010), on the information to be disclosed in the financial statements with respect to the deferred payments to suppliers in commercial transactions, which was previously dealt with in the additional third provision of Law 15/2010, of July 5, modifying Law 3/2004, of December 29.

The average supplier payment periods as reported by the Group for 2019 and 2018 were as follows:

	12/31/2019	12/31/2018
	Days	
Average supplier payment period	20	27
Ratio of transactions paid	19	27
Ratio of transactions pending payment	80	13
	Amount (Thousands of euros)	
Total payments made	1,447	1,406
Total pending payments	12	6

The information provided in the above table on supplier payments relates to those payments which by their nature represent trade payables to suppliers of goods and services, and thus includes data related to the heading for "Trade and other payables" under current liabilities in the consolidated balance sheet.

"Average supplier payment period" is the period from delivery of the goods or provision of the services by the supplier and effective payment for the transaction. The balance to be recognized under this heading is the result of the fraction whose numerator is calculated as the sum of multiplying the transactions paid ratio by total payments made and adding the transactions pending payment ratio multiplied by the total amount of pending payments, and whose denominator is calculated by adding the total amount of payments made to the amount of pending payments.

The ratio of transactions paid is calculated as the sum of all the multiplications of the amounts paid by the number of days to payment (the number of natural days that have elapsed counting from the date on which the amounts became payable to the day they were settled), divided by the total amount of payments made.

Likewise, the ratio of transactions pending payment is the result of the fraction whose numerator is calculated as the sum of all multiplications of amounts pending payment by the number of days for which payments were outstanding (the number of natural days that have elapsed counting from the date on which the amounts became payable to the last day of the period to which the financial statements refer), and whose denominator corresponds to the total amount of pending payments.

The maximum legal period applicable to the Group companies in 2019 and 2018 in accordance with Law 3/2004 of December 29, establishing measures on combating late payment in commercial transactions, is 30 natural days unless otherwise agreed upon by the involved parties, who can also choose to increase said period up to a maximum of 60 natural days.

13. TAX MATTERS

From January 1, 2018 the Group companies started to file their tax returns under a consolidated tax regime, with VE Sonnedix Equityco, S.L. (sole shareholder company) as tax representative of the tax group comprising all companies listed in Appendix I, with the exception of those subsidiaries whose registered tax address is outside Spanish territory (only VE Sonnedix Finance, S.A.), which settle their tax returns individually in accordance with the applicable tax regulations.

Filing tax returns under the special tax consolidation regime involves determining the Group's tax result taken as a whole together with any deductions and tax rebates. For tax purposes, a group of companies is understood to be made up of the Parent and the subsidiaries located in Spanish territory in which the Parent directly or indirectly holds at least 75% of their share capital and who meet the requirements established for inclusion in this special regime.

The distribution of the tax burden is carried out as agreed upon by all the companies that belong to the tax consolidation group, respecting the stipulations of the accounting standards issued by the ICAC.

Balances with public administrations

The breakdown of non-current and current balances with public administrations is as follows:

Receivable balances

	Thousands of euros	
	2019	2018
Deferred tax assets	5,176	4,906
Total non-current	5,176	4,906
Sundry taxes receivable from the tax authorities	15	1
Total current	15	1

Payable balances

	Thousands of euros	
	2019	2018
Deferred tax liabilities	3,551	4,088
Total non-current	3,551	4,088
VAT payable to the tax authorities	523	611
Other tax payable to the tax authorities (*)	549	-
Corporate tax payable	78	-
Total current	1,150	611

(*) Tax on the value of electric energy production

The Group recognized an amount of 549 thousand euros at 2019 year end under "Other payables to public administrations" in the accompanying consolidated balance sheet, corresponding to the pending payment for settlement of the tax on the value of electric energy production established in Law 15/2012, of December 27, on tax measures for energy system sustainability.

Calculation of the Group's tax result

The reconciliation of the Group's consolidated pre-tax book results with taxable income is as follows:

2019

	Thousands of euros		
	Increases	Decreases	Total
Consolidated profit for the Group before tax	-	(3,242)	(3,242)
Permanent differences and consolidation adjustments:	16	-	16
Temporary differences:			
Non-deductible amortization/depreciation	-	(76)	(76)
Accelerated tax amortization/depreciation	1,315	-	1,315
Amortization of operating rights	832	-	832
Non-deductible finance expenses	991	-	991
Tax impact of IFRS 16	60	-	60
Tax result	3,214	(3,318)	(104)

2018

	Thousands of euros		
	Increases	Decreases	Total
Consolidated profit for the Group before tax	-	(2,870)	(2,870)
Permanent differences and consolidation adjustments:	31	-	31
Temporary differences:			
Non-deductible amortization/depreciation	-	(76)	(76)
Accelerated tax amortization/depreciation	1,315	-	1,315
Amortization of operating rights	832	-	832
Non-deductible finance expenses	1,074	-	1,074
Application of tax loss carryforwards from previous years	-	(306)	(306)
Tax result	3,252	(3,252)	-

The temporary differences recognized correspond to the following:

- Non-deductible amortization of goodwill assigned to intangible assets with a defined useful life (operating rights) which generated a positive difference amounting to 832 thousand euros at December 31, 2019 and 2018.
- The deductibility of amortization/depreciation arising from approval on December 27, 2012 of Royal Decree Law 16/2012, introducing a temporary measure, which limits tax deductible amortization/depreciation for the 2013 and 2014 tax periods, for those entities which, during said tax periods, do not fulfill the requirements established in sections 1, 2 or 3 of article 108 of the revised text of the Corporation Tax Law, approved by Legislative Royal Decree 4/2004, of March 5. In accordance with said regulation, up to 70% of the amortization/depreciation will be deducted from the tax base that would have been tax deductible had that percentage not applied, in accordance with sections 1 and 4 of article 11 of said law. Accounting amortization and depreciation that is not tax deductible by virtue of the provisions established in said article will be deducted on a straight-line basis over 10 years or, optionally, over the useful life of the asset, counted from the first tax period commencing during 2015. The related temporary negative difference recognized by the Group in 2019 and 2018 amounted to 76 thousand euros.
- The accelerated tax amortization/depreciation which the subsidiary Sonnedix España SPV XVII, S.L.U. availed itself of by virtue of the stipulations of Law 4/2008 of December 23. During 2019 and 2018 the Group recognized a positive adjustment to taxable income as a result of the above item, amounting to 1,315 thousand euros.
- The limitations to deductibility of finance expenses included in Royal Decree Law 12/2012, of March 30, subsequently modified by Royal Decree Law 20/2012, which established a limit to deductible finance expenses amounting to 30% of operational profit (defined in the aforementioned Royal Decree Law: basically the operating profit increased by the recognized amortization/depreciation) or one million euros. At any rate, the first million euros will always be tax deductible. The Group recognized a positive adjustment to taxable income as a result of the above in 2019, amounting to 991 thousand euros (2018: 1,074 thousand euros).

- The tax effect of the Group adopting the new IFRS 16 - Leases on January 1, 2019, the transition date (Note 2.4). The Group recognized a positive adjustment to taxable income as a result of the above in 2019, amounting to 60 thousand euros.
- The offsetting of tax losses generated in prior years by the subsidiary Sonnedix España SPV XVII, S.L. During 2018, the Group recognized a negative adjustment to the tax base corresponding to this item and amounting to 306 thousand euros.

Reconciliation of tax results and corporate income tax expense

The reconciliation of taxable income and corporate tax expense is as follows:

	Thousands of euros	
	2019	2018
Consolidated profit for the Group before tax	(3,242)	(2,870)
Permanent differences and consolidation adjustments	16	31
<i>Temporary differences:</i>		
Non-deductible finance expenses	991	1,074
Amortization of operating rights	832	832
Non-deductible amortization/depreciation	(76)	(76)
Accelerated tax amortization/depreciation	1,315	1,315
Tax impact of IFRS 16	60	-
Application of tax loss carryforwards from previous years	-	(306)
Tax result	(104)	-
Theoretical tax rate calculated at 25%	26	-
Application of deductions not recognized	-	-
Tax payable (current corporate income tax expense of the Group)	26	-
<i>Impact of temporary differences:</i>		
Non-deductible finance expenses	248	269
Amortization of operating rights	208	208
Non-deductible amortization/depreciation	(19)	(19)
Accelerated tax amortization/depreciation	329	329
Tax impact of IFRS 16	15	-
Adjustment due to tax rate for companies not included in the tax consolidation	(101)	-
Application of tax loss carryforwards from previous years	-	(77)
Adjusted tax loss carryforwards recognized during the year	-	-
Total corporate income tax expense (income)	706	710

As the operating rights which arose as a consequence of assigning the value of goodwill generated in the business combinations which took place in prior years are not tax deductible, deferred tax liabilities are recognized for the difference between the accounting and tax values of the assets in question. The deferred tax recognized in this context amounted to 1,346 thousand euros at December 31, 2019 (2018: 1,554 thousand euros).

The corporate income tax rate applied for calculation of tax payable in 2019 and 2018 was 25%.

Recognized deferred tax assets and liabilities

The breakdown of the balance recognized under this heading at 2019 and 2018 year end is as follows:

Deferred tax assets

	Thousands of euros	
	2019	2018
Non-deductible amortization/depreciation	96	115
Unused loss carryforwards	4,235	4,209
Non-deductible finance expenses	830	582
Tax impact of IFRS 16	15	-
Total deferred tax assets	5,176	4,906

The deferred tax assets mainly include the following items:

- The tax credit for tax loss carryforwards generated and applied by the Group for an amount of 4,235 thousand euros at December 31, 2019 (2018: 4,209 thousand euros).

- The tax credit for non-deductible finance expenses amounting to 830 thousand euros at December 31, 2019 (2018: 582 thousand euros).
- The deferred tax arising from non-deductible amortization/depreciation for the years 2013-2014, amounting to 96 thousand euros at December 31, 2019 (2018: 115 thousand euros).
- The tax credit arising from the Group's application of IFRS 16 – Leases, amounting to 15 thousand euros at 2019 year end.

The aforementioned deferred tax assets were recognized in the consolidated balance sheet as the sole director of the Parent, based on the best estimate for the Group companies' future profits, including certain tax planning initiatives, considers that these tax assets will probably be recovered.

The movements in deferred tax assets in 2019 are as follows:

	Thousands of euros			
	2018	Additions	Derecognitions	2019
Non-deductible amortization/depreciation	115	-	(19)	96
Unused loss carryforwards	4,209	26	-	4,235
Non-deductible finance expenses	582	248	-	830
Tax impact of IFRS 16	-	15	-	15
Total deferred tax assets	4,906	289	(19)	5,176

Deferred tax liabilities

	Thousands of euros	
	2019	2018
Accelerated tax amortization/depreciation	2,205	2,534
Temporary differences (operating rights)	1,346	1,554
Total deferred tax liabilities	3,551	4,088

The deferred tax liabilities mainly include the following items:

- Deferred tax recognized as a consequence of assigning the difference between the amount paid for the acquisitions performed and the net assets acquired, recognized as a greater amount for intangible assets with a defined useful life (operating rights; Note 5). The reversal of these deferred tax liabilities will be carried out during the useful life of the assets associated with said rights. At December 31, 2019, the amount recognized for this item in the consolidated balance sheet amounts to 1,346 thousand euros (2018: 1,554 thousand euros).
- The amounts recognized as a consequence of the applicability of accelerated tax depreciation/amortization for Sonnedix España SPV XVII, S.L.U. for an amount of 2,205 thousand euros at December 31, 2019 (2018: 2,534 thousand euros).

The movements in deferred tax liabilities during 2019 are as follows:

	Thousands of euros			
	2018	Additions	Derecognitions	2019
Accelerated tax amortization/depreciation	2,534	-	(329)	2,205
Temporary differences (operating rights)	1,554	-	(208)	1,346
Total deferred tax liabilities	4,088	-	(537)	3,551

Deferred tax assets not recognized

The breakdown for deferred tax assets recorded for tax purposes but not recognized in the consolidated financial statements at December 31, 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Unused loss carryforwards	-	-
Deductions for environmental expenditure	3,593	3,593
Total deferred tax assets not recognized	3,593	3,593

Years open to tax verification and inspections

In accordance with prevailing legislation, tax returns cannot be considered final until they have been inspected by the tax authorities or until the four-year inspection period has elapsed. The sole director of the Parent considers that all aforementioned applicable taxes have been duly filed so that even in the event of discrepancies in the interpretation of prevailing legislation regarding the tax treatment of operations, any liabilities that may arise would not significantly affect the accompanying consolidated balance sheet.

14. TRANSACTIONS WITH RELATED PARTIES

Related-party transactions

During 2019 transactions between the VE Sonnedix Equityco Group and Sonnedix B.V. were carried out in the amount of 1,154 thousand euros (2018: 1,266 thousand euros), corresponding to interest accrued on the financing received (Note 12.3).

The breakdown by Group company of finance expenses accrued during 2019 and 2018 in connection with the subordinated loans granted by Sonnedix B.V. is as follows:

Finance expenses - Group companies	Thousands of euros	
	2019	2018
Sonnedix España SPV VII, S.L.	25	43
Sonnedix España SPV XVII, S.L.	592	638
Sonnedix España SPV XIX, S.L.	183	190
Sonnedix España SPV XX, S.L.	25	34
Sonnedix España SPV XXVI, S.L.	95	121
Parque Eólico de Cubla, S.L.	234	240
	1,154	1,266

The heading for "Cost of sales" includes recognition of the expenses accrued during 2019 for the operating and maintenance services invoiced by the subsidiary Sonnedix España Services, S.L. (previously called Vela Energy, S.L.), amounting to 690 thousand euros (2018: 682 thousand euros) by virtue of the contracts signed. Said contracts established a fixed annual cost per MW of installed capacity.

Related-party balances

The breakdown of the balances with related parties recognized in the consolidated balance sheet at December 31, 2019 and 2018 is as follows:

	12/31/2019		
	Non-current borrowings from group companies	Payables to group companies	Current borrowings from group companies
Borrowings from group companies	12,103	-	305
	12,103	-	305

	12/31/2018		
	Non-current borrowings from group companies	Payables to group companies	Current borrowings from group companies
Borrowings from group companies	13,256	-	618
	13,256	-	618

The breakdown of non-current subordinated debt with related parties at 2019 and 2018 year end corresponds to the loans held by the Group's subsidiaries with Sonnedix B.V. The balance at December 31, 2019 and 2018 was as follows (Note 12.3):

Company	Thousands of euros		
	Non-current balance		
	12/31/2019		
	Balance	Maturity	Interest rate
Sonnedix España SPV VII, S.L.	182	11/30/2033	9%
Sonnedix España SPV XVII, S.L.	6,253	11/30/2033	9%
Sonnedix España SPV XIX, S.L.	2,009	1/31/2029	9%
Sonnedix España SPV XX, S.L.	230	1/31/2029	9%
Sonnedix España SPV XXVI, S.L.	873	4/1/2033	9%
Parque Eólico de Cubla, S.L.	2,556	12/31/2036	9%
	12,103		

Company	Thousands of euros		
	Non-current balance		
	12/31/2018		
	Balance	Maturity	Interest rate
Vela Energy SPV VII, S.L. (*)	355	11/30/2033	9%
Vela Energy SPV XVII, S.L. (*)	6,748	11/30/2033	9%
Vela Energy SPV XIX, S.L. (*)	2,043	1/31/2029	9%
Vela Energy SPV XX, S.L. (*)	339	1/31/2029	9%
Vela Energy SPV XXVI, S.L. (*)	1,202	4/1/2033	9%
Parque Eólico de Cubla, S.L.	2,569	12/31/2036	9%
	13,256		

(*) On March 22, 2019 the subsidiaries changed their names, replacing "Vela Energy" with "Sonnedix España."

In addition, at 2019 year end the Group recognized a balance of 305 thousand euros (2018: 618 thousand euros) corresponding to interest accrued and not paid to the related party Sonnedix B.V. for the financing granted.

15. INCOME AND EXPENSES

a) Revenue

Revenue for 2019 amounted to 10,863 thousand euros (2018: 11,018 thousand euros), entirely corresponding to the sale of energy produced at the Group's different photovoltaic solar energy farms being operated.

b) Breakdown of expenses and services by origin

No assets were purchased abroad during 2019 or 2018.

c) Cost of sales

This heading presents a balance of 769 thousand euros for 2019 (2018: 768 thousand euros), mainly corresponding to work performed by Sonnedix España Services, S.L. (previously called Vela Energy, S.L.), a Group company, for operating and maintaining the Group's photovoltaic installations (Note 14). The cost of said services corresponds to a fixed annual price for each Group company.

d) Other operating expenses

The breakdown of this heading in the accompanying consolidated statement of profit and loss at December 31, 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
External services:		
Rent	45	262
Insurance	-	2
Banking services	4	15
Independent professional services	100	125
Other taxes	1,030	648
	1,179	1,052

The balance of 1,030 thousand euros recognized under "Other taxes" for 2019 (2018: 648 thousand euros) mainly represents the "Tax on the value of electric energy production" established in Law 15/2012, of December 27, on tax measures for energy system sustainability (Note 3).

As explained in Note 3 to the accompanying consolidated financial statements, at 2019 and 2018 year end, payment of the amount accrued in connection with this tax on electric energy produced in the fourth quarter of 2018 and the first quarter of 2019 was suspended, based on the stipulations of Royal Decree Law 15/2018, of October 5, on urgent measures for energy transition and protection of consumers. However, during 2019 the Group provisioned said expense in an amount of 375 thousand euros as the sole director of the Parent considers this amount as a real and probable tax obligation.

Finally, the Group recognized an amount of 262 thousand euros under "Rent" for 2018, corresponding to the lease installments payable for the land not owned by the Group companies and on which the photovoltaic installations are located. On January 1, 2019 the Group started applying the new IFRS 16 (Note 2.4).

e) Depreciation and amortization allowances

The breakdown of this heading in the accompanying consolidated statement of profit and loss at December 31, 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Amortization allowance for intangible assets (Note 5)	1,252	1,073
Depreciation allowance for PP&E (Note 6)	7,206	7,202
	8,458	8,275

f) Finance costs

Finance costs mainly correspond to the interest accrued on financing obtained by Group companies for operation of the photovoltaic installations. The breakdown of these expenses is as follows:

	Thousands of euros	
	2019	2018
Finance costs for bonds and other marketable securities	2,367	2,507
Finance costs with Group companies and associates	1,154	1,266
Other finance costs	178	22
Total	3,699	3,795

Finance costs for bonds and other marketable securities

The finance costs relating to bonds and other marketable securities correspond to interest accrued on the financing in connection with the Céfaló Bond issue (Note 12.1), amounting to 2,303 thousand euros during 2019 (2018: 2,438 thousand euros), as well as the finance cost corresponding to the arrangement commission for the bond, totaling 64 thousand euros in 2019 (2018: 69 thousand euros).

Finance costs with Group companies and associates

In addition, all finance expenses accrued with Group companies and associates during 2019 and 2018 correspond to those arising from the financing received from Sonnedix B.V., amounting to 1,154 thousand and 1,266 thousand euros, respectively (Note 14).

Other finance costs

This heading in the accompanying consolidated statement of profit and loss includes the finance cost arising from updating the dismantling provisions for photovoltaic installations, amounting to 20 thousand euros in 2019 (2018: 12 thousand euros) (Note 19).

In addition, in 2019 the Group recognized the finance expenses relating to the lease liability recognized in the consolidated balance sheet as a consequence of applying IFRS 16, amounting to 138 thousand euros (Notes 2.4 and 12.2).

16. INFORMATION ON SITUATIONS REPRESENTING A CONFLICT OF INTEREST FOR THE SOLE DIRECTOR OF THE PARENT AND WITH RESPECT TO REMUNERATION FOR SENIOR MANAGEMENT

Disclosures regarding potential conflicts of interest on the part of the sole director

The Parent's sole director did not report any potential direct or indirect conflict of interest between the sole director or related persons, as defined in Spain's Corporate Enterprises Act, and the Group at either 2019 or 2018 year end.

Remuneration and other benefits paid to Senior Management and the Sole Director

The Group companies did not recognize any amounts whatsoever in 2019 or 2018 in respect of wages or salaries paid to the Parent's sole director or members of senior management. The functions and duties of senior management for the Parent were assumed by its sole director in 2019 and 2018.

Likewise, at 2019 and 2018 year end, the Group companies had not granted any loans, advances or guarantees of any kind to the sole director of the Parent.

Further, there were no commitments with respect to pension plans and life insurance policies for the sole director of the Parent or senior management.

17. FINANCIAL STRUCTURE (NOTE 12)

The Group companies mainly finance their photovoltaic projects via financing obtained through the Céfalo Bond issue described in Note 12.1 to the accompanying consolidated financial statements. In addition to the financing obtained from said bond issue, each of the projects are also financed with subordinated debt granted by the related party Sonnedix B.V. (Note 12.3).

18. AUDITOR FEES

The fees during 2019 and 2018 for audit and non-audit services provided by the auditor of the Group's consolidated financial statements, Ernst & Young, S.L., as well as fees for services invoiced by the auditors of the individual financial statements of companies included in the consolidation and by parties related to them due to control, common ownership or management, were as follows:

Description	Thousands of euros	
	Services provided by the main auditor	
	2019	2018
Audit services	55	58
Total audit and related services	55	58
Other services	-	-
Total	55	58

19. PROVISIONS

At the end of the useful life of some of the photovoltaic solar installations the Group must dismantle them. Upon initial recognition of the fixed assets, the Group estimates the future cost for asset dismantling or retirement obligations and other associated items, such as the cost of restoring the surroundings where they were located. To determine the amount of the provision, the Group makes assumptions and estimates regarding the discount rate and expected dismantling costs.

The Group estimated that expected dismantling costs for the installations range from 27 thousand euros per installed MW to 45 thousand euros per installed MW, taking into account each one's size and installed capacity, and based on a technical report issued by an independent expert.

The provision recognized by the Group for some of the photovoltaic installations in the consolidated balance sheet amounts to 409 thousand euros at December 31, 2019 (2018: 389 thousand euros). This provision does not represent an outflow of cash resources until the useful life of each photovoltaic installation affected finalizes.

At each reporting date this provision is discounted to its present value, recognizing the corresponding adjustments as a finance expense as accrued (Note 15.f).

20. SEGMENT INFORMATION

The Group focused its activities during 2019 and 2018 on a single business line: the operation of photovoltaic solar installations in Spain, which includes, amongst other activities, the production and sale of electricity generated by solar energy. Said business segment is the only one utilized by the Group's General Management in its reports to the sole director of the Parent and is the only one used for management of the Group.

21. SUBSEQUENT EVENTS

On March 11, 2020 the World Health Organization raised the level of alarm for the public health emergency provoked by the coronavirus (COVID-19) outbreak to the level of an international pandemic. The rapid development of events on a domestic and international level represents an unprecedented health crisis which will impact the macroeconomic environment and business performance. In order to face the challenge represented by this situation, amongst other measures, the Government of Spain declared a state of emergency via publication of the Royal Decree 463/2020 of March 14, and the approval of a series of extraordinary urgent measures to deal with the economic and social impact of COVID-19 via Royal Decree Law 8/2020 of March 17.

In spite of the complexity of the situation and its rapidly changing nature, the Group considers the impact on its financial statements will not be very significant. Any such impact would be recognized prospectively in the consolidated financial statements for FY 2020.

The Group is taking the appropriate steps in order to meet the challenge represented by this situation and minimize its impact, considering that it is a one-off situation which, in accordance with the most up-to-date estimates and the current cash position, does not affect the going concern principle.

No additional events occurred subsequent to the annual closing which are significant enough to warrant disclosure in the accompanying consolidated financial statements.

22. EXPLANATION TO THE TRANSLATION TO ENGLISH

These Consolidated Financial Statements are presented on the basis of accounting principles generally accepted in Spain. Consequently, certain accounting practices applied by the Group that conform to generally accepted accounting principles in Spain may not conform to other generally accepted accounting principles in other countries. Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.

VE Sonnedix Equityco, S.L. and Subsidiaries

Consolidated Management Report for the year ended December 31, 2019

1. Economic data of the Group

Operating results presented a profit of 457 thousand euros for 2019 (2018: 925 thousand euros), obtaining revenue of 10,863 thousand euros (2018: 11,018 thousand euros profit).

The losses before taxes on continuing operations for 2019 amounted to 3,242 thousand euros (2018: 2,870 thousand euros of losses), while the Group's negative results in 2019 amounted to 2,536 thousand euros of losses (2018: 2,160 thousand euros of losses).

The Group will continue operating the photovoltaic solar installations described in Note 1 to the accompanying consolidated financial statements for the coming years.

2. Main business risks

The main risk to which the Group's business activities are exposed relates to the possibility of regulatory changes which may arise in the different markets where it is present. To the extent that the Group pursues its activities in developed economies with legal security, it can manage said risk and does not anticipate any relevant matters which could significantly affect its equity in the future.

Apart from this, the Group is not exposed to any other significant risks, given that the critical variables of its business (sales price for energy and installation rental costs) are known and have been agreed upon contractually, so that performance of the Group during the period it operates a photovoltaic plant basically depends on the amount of daylight hours permitting the generation of electric energy.

3. Outlook

The Group's strategic objective for 2020 is based on continuing its operation of photovoltaic projects in the most efficient manner possible so as to maximize corresponding value.

4. Significant events for the Group subsequent to year end

No additional significant matters arose other than those disclosed in Note 21 to the accompanying consolidated financial statements.

5. Research and development activities

The Group did not carry out any R&D activities during the current period.

6. Acquisition of treasury shares

During 2019 the Group did not carry out any transactions with treasury shares and neither did it hold any treasury shares at 2019 year end.

Appendix I Subsidiaries of the VE Sonnedix Equityco Group at December 31, 2019

Company	Activity	Address (2)	Percentage of indirect ownership interest and voting rights	Percentage of direct ownership interest and voting rights	Year of acquisition	Equity of the subsidiary (thousands of euros)				
						Share capital	Reserves	Profit (loss)		Total equity
								Operating profit	Net	
Sonnedix España SPV VII, S.L.	(1)	Spain	100%	-	2016	3	319	(120)	(40)	282
Sonnedix España SPV XVII, S.L.	(1)	Spain	100%	-	2016	3	(952)	16	(1,172)	(2,121)
Sonnedix España SPV XIX, S.L.	(1)	Spain	100%	-	2016	3	(589)	(47)	(429)	(1,014)
Sonnedix España SPV XX, S.L.	(1)	Spain	100%	-	2016	3	(36)	65	(43)	(76)
Sonnedix España SPV XXVI, S.L.	(1)	Spain	100%	-	2016	3	(20)	224	(142)	(160)
Parque Eólico de Cubla, S.L.	(1)	Spain	100%	-	2017	1,203	(1,526)	239	(446)	(769)
Sonnedix España Holdings 3, S.L.	(1)	Spain	-	100%	2016	3	6,401	1	1	6,404
VE Sonnedix Finance, S.A.	(1)	Luxembourg	-	100%	2017	30	307	65	(46)	291

- (1) None of the companies indicated above is listed on a stock exchange. The activities of the companies are focused on the development and promotion of energy projects and all matters relating to the electric energy market.
- (2) Companies with their registered address at Calle Príncipe de Vergara 108, 12º, 28002 (Madrid) with the exception of VE Sonnedix Finance, S.A., whose registered address is at 46ª avenue J.F. Kennedy, L-1855 (Luxembourg).

All the investments shown were consolidated under the full consolidation method.

Appendix I Subsidiaries of the VE Sonnedix Equityco Group at December 31, 2018

Company	Activity	Address (2)	Percentage of indirect ownership interest and voting rights	Percentage of direct ownership interest and voting rights	Year of acquisition	Equity of the subsidiary (thousands of euros)				
						Share capital	Reserves	Profit (loss)		Total equity
								Operating profit	Net	
Sonnedix España SPV VII, S.L. (*)	(1)	Spain	100%	-	2016	3	350	166	(31)	322
Sonnedix España SPV XVII, S.L. (*)	(1)	Spain	100%	-	2016	3	150	237	(1,102)	(949)
Sonnedix España SPV XIX, S.L. (*)	(1)	Spain	100%	-	2016	3	(316)	42	(372)	(685)
Sonnedix España SPV XX, S.L. (*)	(1)	Spain	100%	-	2016	3	(6)	97	(30)	(33)
Sonnedix España SPV XXVI, S.L. (*)	(1)	Spain	100%	-	2016	3	121	278	(141)	(17)
Parque Eólico de Cubla, S.L. (*)	(1)	Spain	100%	-	2017	1,203	(1,134)	190	(392)	(323)
Sonnedix España Holdings 3, S.L. (*)	(1)	Spain	-	100%	2016	3	6,301	-	-	6,304
VE Sonnedix Finance, S.A. (*)	(1)	Luxembourg	-	100%	2017	30	359	(65)	(8)	381

- (1) None of the companies indicated above is listed on a stock exchange. The activities of the companies are focused on the development and promotion of energy projects and all matters relating to the electric energy market.
- (2) Companies with their registered address at Calle Jenner 3, 4º, 28010 (Madrid) with the exception of VE Sonnedix Finance, S.A., whose registered address is at 46ª avenue J.F. Kennedy, L-1855 (Luxembourg).

All the investments shown were consolidated under the full consolidation method.

VE Sonnedix Equityco, S.L. and Subsidiaries

AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED Tuesday, December 31, 2019 TOGETHER WITH THE MANAGEMENT REPORT

Authorization by the sole director of the Parent:

The accompanying consolidated financial statements (comprised of the consolidated balance sheet, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and notes thereto) for the annual period ended December 31, 2019, were authorized for issue together with the consolidated management report corresponding to the annual period ended December 31, 2019, by the natural person representing the sole director on March 31, 2020. The accompanying consolidated financial statements and consolidated management report are set forth on 45 pages, from page 1 to 45.



Mr. Miguel A. García Mascuñán
In representation of Sonnedix España Holdings 3, S.L.
(Sole director of the Parent)