

Annual report 2019

13 February 2020

## Disclaimer

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## Foreword from the CEO

You have to be careful when using the term “historic”. It is sometimes used correctly, but more often incorrectly. But here I can speak of a historic decision. On 7 October 2019 the minister for Economic Affairs and Climate Policy sent a letter to the Lower House of the Dutch Parliament stating that GasTerra was going to reduce its activities and eventually be wound up. When that happens, it will mean the disappearance of the first part of the public-private cooperation that has since the early 1960s been responsible for the extraction and exploitation of Dutch natural gas: ‘the Gasgebouw’.

At first sight this is not an illogical development. If everything goes according to plan, in 2022 a new nitrogen installation run by Gasunie Transport Services will come into operation. As a consequence of this expansion of nitrogen blending capacity and the gradually falling demand for low-calorific gas, the gas supply which for 60 years has met the needs of many millions of households and large consumers will exceed what is needed for security of supply. The minister has stated that production can cease in that year, 2022. The Groningen field may remain available for a short time after that so that it can be called on in particular circumstances, such as extremely cold weather. Whether that will be necessary, and for how long, was still under examination when this foreword was being written. The decision rests in the hands of the minister for Economic Affairs and Climate Policy.

In combination with the fact that production from small fields is (also) falling quickly, a situation has arisen which the Netherlands has not experienced since the start of the natural gas era. Our country has become dependent on imports. This dependence will increase at a rapid pace in the years to come.

GasTerra’s shareholders have concluded from this that, as the Netherlands is now starting to become a ‘normal’ European gas country, it is inevitable that our public-private commercial gas trading company with its exclusive rights to an abundant supply of domestic gas, a structure that is unique in the world, will disappear. I do not need to hide that GasTerra’s employees were disappointed at the decision to wind up GasTerra. They had hoped that their company could remain active despite the imminent closure of the Groningen field.

GasTerra now faces what is perhaps the greatest challenge in its history. As the minister said in his letter to parliament, it is the hub of Dutch gas supply and will remain so for some time to come. At the same time we have to run down our activities. Employees will understandably be starting to look for new jobs. Those who remain will in future be working in an organisation which they know to have a limited horizon.

Nevertheless I remain confident that we can continue to play the role that we have played for years with just as much success for as long as this remains necessary. The results achieved in 2019 back up my optimism. The key task of our trading company was and remains to add as much value as possible to the gas supplied to us. We were able to do this in the past year despite the difficult market conditions. The volume bought fell to 51.5 billion cubic metres, mainly because of a fall in the supply of Dutch gas from Groningen and the small fields. Gas prices were almost three cents lower than in 2018, at an annual average of 17 cents per cubic metre. These factors led to a fall in turnover to 8.8 billion euros, more than 2.3 billion less than in the previous reporting year.

We expect volume and turnover to fall further in the years to come. The Groningen field used to be the starting point of Dutch gas supply, but now it is the final piece. Blending high-calorific gas from other sources with nitrogen to produce 'pseudo' Groningen gas means that production can gradually be further reduced and brought to a complete stop within three years. GasTerra as the sole purchaser of Groningen gas is taking an active part in this phasing-out process.

I do not want to finish this foreword without expressing my thanks. Firstly to our business partners for the interest and understanding they have shown on many occasions for GasTerra's situation. But especially to my colleagues, GasTerra's employees. Uncertainty as to the future of our business has given way to the awareness that they would lose their jobs much sooner than they expected. All those concerned deserve high praise for the fact that despite this we have, in the three months that have elapsed since the announcement of the shareholders' decision, succeeded in reaching agreement with the works' council on the main lines of the phasing out plan to be developed in more detail in 2020 and with the trade union on the content of the associated social plan.

We have started a new year, with known and as yet unknown challenges. We remain convinced that our product, gas, will remain a vital part of energy supply during and after the transition to a climate-neutral energy supply. This means that our work retains its economic and social value, even if the end of our company is now in sight.

*Annie Krist,*  
*CEO*

# 1. GasTerra

## 1.1. About GasTerra

GasTerra is a gas trading company that operates internationally and is based at Stationsweg 1 in Groningen. The company has over 50 years' experience and enjoys a good market position. GasTerra is part of the Dutch 'Gasgebouw', a public-private partnership in which NAM, Shell, ExxonMobil, the Dutch State and EBN are also represented.

GasTerra is the purchaser of gas from the Groningen field. In addition to low-calorific Groningen gas, GasTerra also trades in high-calorific gas, which comes mainly from small Dutch gas fields in the North Sea and on land, and from imports from Russia and Norway. Producers of small-field gas can put it on the market themselves but are not obliged to do so. GasTerra has a public role with regard to implementing the Dutch government's small fields policy and is legally obliged to buy this gas at market conditions if asked to do so. We sell the gas we buy on the domestic market and to energy companies in neighbouring countries.

As a result of the earthquakes problem, since 2014 the minister for Economic Affairs and Climate Policy has taken various decisions on the deployability of the Groningen field. On 29 March 2018 the government announced that gas extraction in Groningen would be ended as rapidly as possible. The Gas Act and the Mining Act were amended in 2018 in order to enable this. The government set Groningen production for the 2019/2020 gas year at 11.8 billion m<sup>3</sup> in an average year. This brings extraction below the level recommended by the Mines Supervisory Authority of 12 billion m<sup>3</sup>. The minister expects that gas extraction in Groningen can be nil from the middle of 2022 when temperatures are normal.

The acceleration in the decline of gas extraction from the Groningen field means that GasTerra's core activity will disappear. Consequently, the shareholders have asked GasTerra's management to draw up a phasing-out plan for the company. The starting point of this phasing-out plan is that GasTerra will in the coming period continue to contribute to responsible extraction from the Groningen field and to meet its contractual obligations.

For years, GasTerra's mission has been to maximise the value of Dutch natural gas. We do this by aiming to achieve four objectives:

- **Anticipation:** we anticipate a changing environment and listen to our stakeholders, so that opportunities and threats can be identified and so that GasTerra can continue to fulfil its mission of value maximisation in the future.
- **Volume:** we aim to sell the entire volume of gas offered to GasTerra.
- **Price:** we aim to achieve a price in line with the market, with the highest possible margin for the entire portfolio.
- **Costs:** we try to achieve a correct balance between costs on the one hand and value and care on the other hand.

This mission and the associated strategy remained the starting points for business operation in 2019, but will need to be adjusted in 2020 in the light of the decision regarding gas extraction in Groningen and the decision to draw up a phasing-out plan. The phasing-out plan will be drawn up in the first half of 2020. Remarks in this annual report about plans for 2020 do not always explicitly refer to the possible consequences of a phasing-out plan.

It is clear that the role of gas in the future energy supply will be different. We consider it important that, in the transition towards a climate-neutral energy supply, natural gas is preferably used where sustainable sources are not yet a workable alternative. GasTerra continues for the time being to work on decarbonising by encouraging the production of green gas, investigating the market opportunities of renewable gases including hydrogen, and playing an active part in raising awareness of this issue through its knowledge and financial resources.

GasTerra strives to make sustainability responsible, i.e. reflect socio-economic interests. We operate according to the principles of corporate social responsibility (CSR): People, Planet, Profit, which we have translated into Gas, Green, Groningen. In this, Gas represents our operating results, Green represents the energy transition and Groningen represents our involvement in the region.

## **1.2. The chain and our role**

We are part of the chain from extraction to use of natural gas. GasTerra is active as a trader in this chain.

In the past, international gas trade took place via bilateral long-term contracts between producers and national monopolies or oligopolies which sold gas to retailers and end users. The liberalisation of the European energy markets made free trade in gas possible, and various marketplaces for gas were created, along with universally accessible transport facilities and various trading parties, one of which is GasTerra. In the Netherlands this marketplace is called the Title Transfer Facility (TTF). The TTF allows traders to buy and sell gas. Trade is virtual, which means that only ownership of gas volumes changes, without any consequences for the physical streams in the transport system. In addition, the TTF does not take account of different qualities of gas, unlike the situation in physical reality. Market players simply buy and sell gas. The advantages of this include a lower threshold to entry, leading to an increase in the number of players that can operate on a single integrated market, strong competition, transparent trade and higher liquidity. Gasunie Transport Services (GTS) is formally required to ensure that the various qualities are physically in balance. GasTerra as the largest shipper and seller of gas from Groningen contributes to this balancing.

A large number of standard products are traded on gas hubs. The delivery times of these products varies. The purpose of purchases and sales is to keep the total obligations of purchasers and sellers (the market) in balance. The products can be bought and sold for various periods: now (within-day) and tomorrow (day-ahead) on the spot market, and for the future on the futures market (month-ahead and year-ahead). The spot market is relevant for market players as it allows them to keep their trading portfolio in balance, while the futures market offers these parties important security of supply.

GasTerra has to take account of the North-West European market for low-calorific gas as well as keeping its own portfolio in balance. This is a difference between our company and other traders which only have to deal with their own portfolio and do not need to take account of gas quality and broader market demand. If it looks like the physical balance for L-gas might become incorrect, GTS can order GasTerra to increase or reduce the amount of L-gas it feeds into the transmission system. As GasTerra has to keep its own portfolio in balance as well, as has just been pointed out, whenever GTS gives orders relating to L-gas, we must also have sufficient resources available to balance our H-gas volumes.



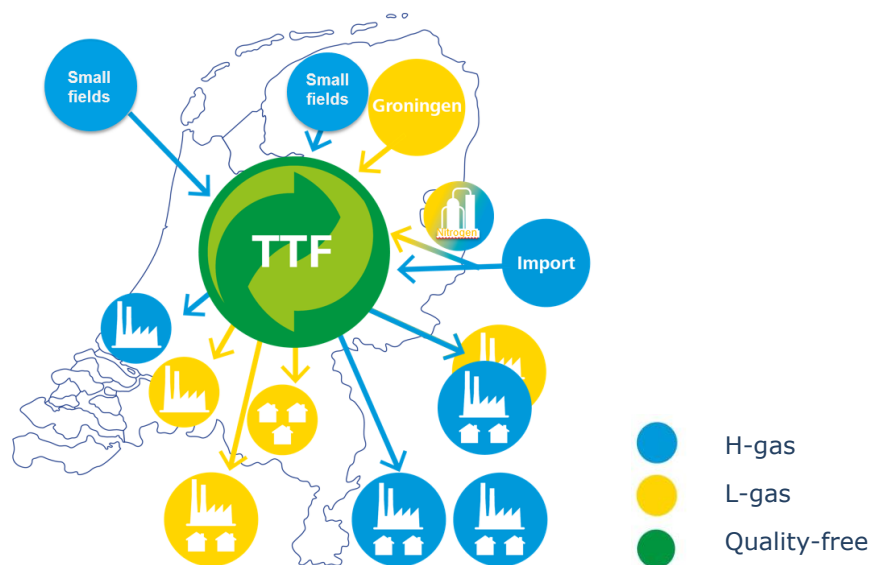
For the 2019/2020 gas year, the minister for Economic Affairs and Climate Policy has determined an operational strategy under which NAM is required to produce 11.8 billion cubic metres from the Groningen field in an average year. This decision was in line with the advice of GTS. This quantity is intended to supplement gas from other sources and is needed to guarantee security of supply. The gas from these other sources will be converted into low-calorific Groningen quality via GTS's nitrogen plants, and so is called pseudo-Groningen gas.

The operational strategy of 11.8 billion cubic metres for the Groningen field is based on an average year with regard to temperatures, and is calculated by GTS using the degree-day formula. The starting point under the degree-day formula is that the entire capacity made available by GTS is used by its baseload nitrogen plants at Ommen and Wieringermeer, and consequently as little gas as possible is required from the Groningen field. The result of the formula is a forecast, based on uncertain factors such as temperatures and availability of the nitrogen plants, but also, for example, the energy value of gas from the other sources. The amount of Groningen gas actually required will not be known until the end of the gas year. GasTerra has undertaken to indicate how much nitrogen has been used during the gas year. It is up to the minister for Economic Affairs and Climate Policy to decide whether the extraction instruction to NAM needs to be adjusted during the course of the year.

The shipper (GTS) uses a separate pipeline network to transport Groningen gas and other low-calorific gas (L-gas), which exists alongside the gas network for the transport of high-calorific gas (H-gas). GTS has to ensure that both networks remain in balance by ensuring that the quantities of gas offered by the traders do not deviate too far from the volumes withdrawn from the network.

Although the market does not recognise any differences in gas qualities, the separate pipeline systems for low-calorific and high-calorific gas can of course only be kept in balance if there is sufficient gas of both qualities available. What this means for GasTerra is that the supply of more or less Groningen gas has to be immediately offset by H-gas to keep its own portfolio in balance. The gas must be physically available and deliverable, otherwise the system seizes up. The fall in supply from Groningen and domestic H-gas from the small fields makes this task even more challenging.

In order to keep the system in balance, operators of a national transmission network (Transmission System Operators/TSOs), GTS in the Netherlands, can blend in a limited quantity of gas of different qualities. This is called quality conversion. The physical conversion of L-gas to H-gas is kept as low as possible to limit demand for Groningen gas. This applies not only in the Netherlands but also in neighbouring countries.



### 1.2.1.1. Gas trading in the Netherlands

## 1.3. Our environment

We anticipate changes in the environment by adjusting our strategy, dealings and activities accordingly. GasTerra's portfolio consists primarily of Dutch gas from Groningen, small fields, foreign suppliers and green gas sources. We also pay particular attention to the demand for gas in North-West Europe, as this is relevant to our trading activities.

### 1.3.1. Groningen supply

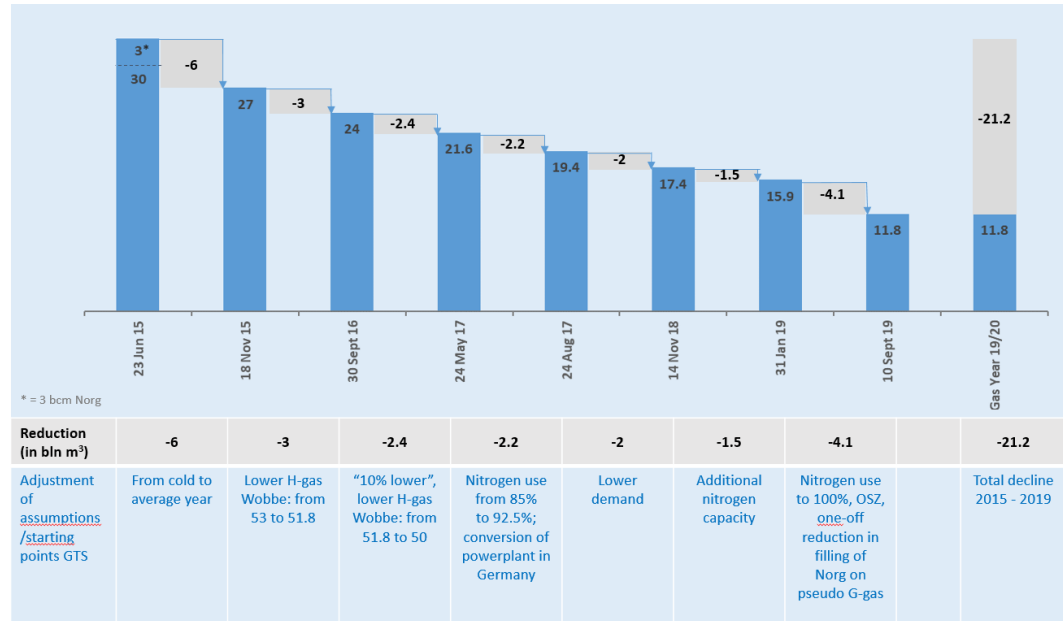
The supply from the Groningen field has been declining in recent years. Since 2014 the minister for Economic Affairs and Climate Policy has determined the maximum amount of gas that can be extracted from this field each gas year.

After the first serious earthquake in Huizinge (2012) it became clear that the quantity of gas extracted would have to be reduced for reasons of prevention. At the same time, the many millions of households in the Netherlands and abroad that were dependent on low-calorific Groningen gas could not be literally and metaphorically left in the cold. These two principles are in conflict with each other.

One complicating factor is that the volume of natural gas needed to guarantee security of supply is only known afterwards. All you can do in advance is look at models, temperature scenarios based on historic data and assumptions relating to storage and transmission capacity and the amount of nitrogen available to convert gas from alternative sources into 'pseudo' Groningen gas and the energy value of the alternative gas. All these data are by definition provisional because they relate to the future.

The volume required for security of supply is calculated by the transmission system operator, GTS. The diagram below shows how the production ceilings based on this have been declining sharply year on year since 2015. The estimated reduction is attributable to changes in a number of assumptions, placed under the x-axis of the diagram.

### Decisions and explanations relating to the reduction in Groningen gas extraction



#### 1.3.1.1.

##### Explanatory notes to the diagram<sup>1</sup>:

*From cold to average year: This means that the volume required for the following year for security of supply is based on a year with average temperatures instead of a bitterly cold year; that decision therefore included the option of producing more than the ceiling figure if the weather was unexpectedly cold.*

*Lower H-gas Wobbe: the Wobbe index is a measurement of gas quality. A lower H-gas quality means that more gas of Groningen quality can be made with the same amount of nitrogen. This figure has been revised downwards twice since 2015. This was done because measurements showed that the H-gas quality was in fact lower than estimated.*

*Lower demand: this is the expected size of the market in the following year. This turned out to be smaller than anticipated, which explains the reduction.*

*Additional nitrogen capacity: this is the additional quantity of nitrogen which GTS can buy in order to convert H-gas into Groningen-quality gas ('pseudo Groningen gas').*

#### 1.3.2. Supply from small fields

Production from small Dutch gas fields, and investments in and exploration of new small fields, fell again in 2019. In September 2019 production from small gas fields was at its lowest point since January 2003. Most small Dutch gas fields are at the final stage of their production cycle. In addition, the investment climate is difficult because of the relatively high costs of production from new fields. Social support for gas extraction has also declined.

<sup>1</sup> The data and figures on which this diagram is based are in the public domain. GasTerra is responsible for the explanation below the x-axis of the gas volumes shown in the columns. 'Norg' refers to gas storage in Norg.

The government has said that in as demand for gas is phased out, production from small gas fields will have preference over gas imports. In order to maintain the economic prospects of the offshore gas sector, there is currently a proposal before the Council of State to increase the investment tax break for the detection and extraction of gas from the North Sea from 25 to 40%.

### **1.3.3. European gas demand**

In North-West Europe<sup>2</sup> demand for gas in 2018 was 261 billion m<sup>3</sup>. Gas demand in North-west Europe is expected to remain stable in the years to come. Sales of gas to the small consumer and industry segments is likely to fall thanks to more efficient use of gas. This decline will be offset by a greater need for gas by power stations. The falling cost difference between gas and coal to generate electricity will cause a rise in demand for gas rather than coal by power stations.

Exports of L-gas to Germany, Belgium and France are expected to cease entirely by 2030. L-gas connections are being converted to H-gas connections in these countries. In 2018 and 2019 over 500,000 households in Germany were connected to the H-gas network, while the corresponding figure for Belgium in the same period was over 80,000. France is converting a small number of connections up to 2020, with the majority of the conversion programme scheduled for the period from 2022 to 2026.

### **1.3.4. Dutch gas demand**

Demand for natural gas in the Netherlands in 2018 was over 36 billion m<sup>3</sup><sup>3</sup>. Demand for natural gas between now and 2030 is expected to fall further in the light of the targets set out in the climate accord. This is one of the consequences of the measures taken to increase the efficiency of energy use. In addition, the choice of alternative heating systems such as electric heat pumps and heat networks also has a part to play.

### **1.3.5. The Netherlands net importer**

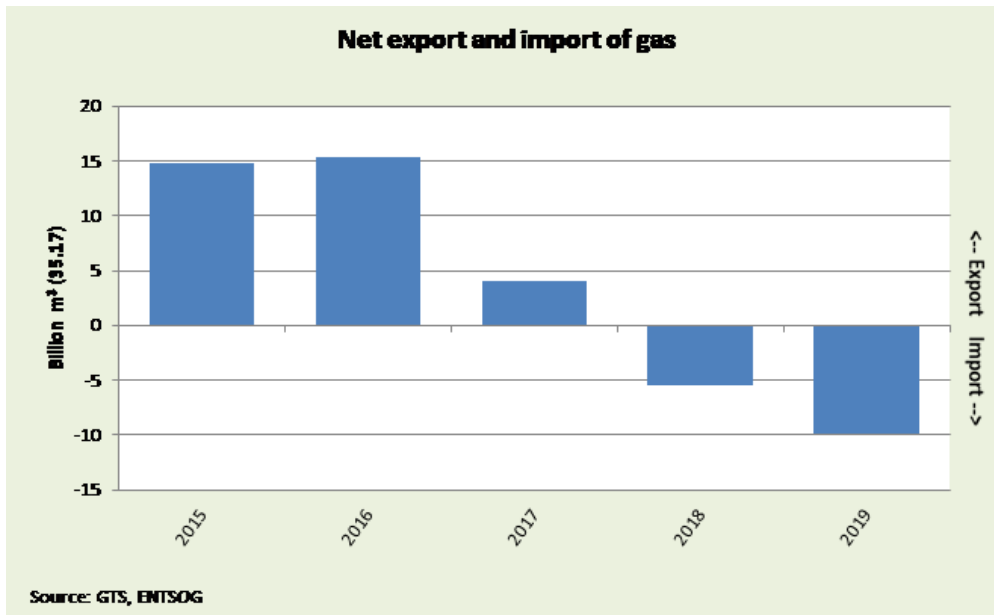
The Netherlands has traditionally been a net exporter of gas thanks to production from the Groningen field and small fields. In recent years the supply of gas has been falling faster than the demand for gas. The fall in supply is the result of the sharp decline in domestic production, especially due to the reduction in extraction in Groningen. New small offshore fields cannot compensate for the fall in Groningen production. As a result, the Netherlands became a net importer of gas in 2018. Net imports for the 2019 calendar year rose again, especially imports of LNG.

The diagram below shows the net gas export/import balance for the Netherlands since 2015.

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<sup>2</sup> United Kingdom, France, Belgium, the Netherlands, Germany, Denmark, Sweden, Luxembourg and Switzerland. Source S&P Global Platts

<sup>3</sup> Source CBS: energy consumption natural gas 1,285 petajoules (35.17 MJ/m<sup>3</sup>)

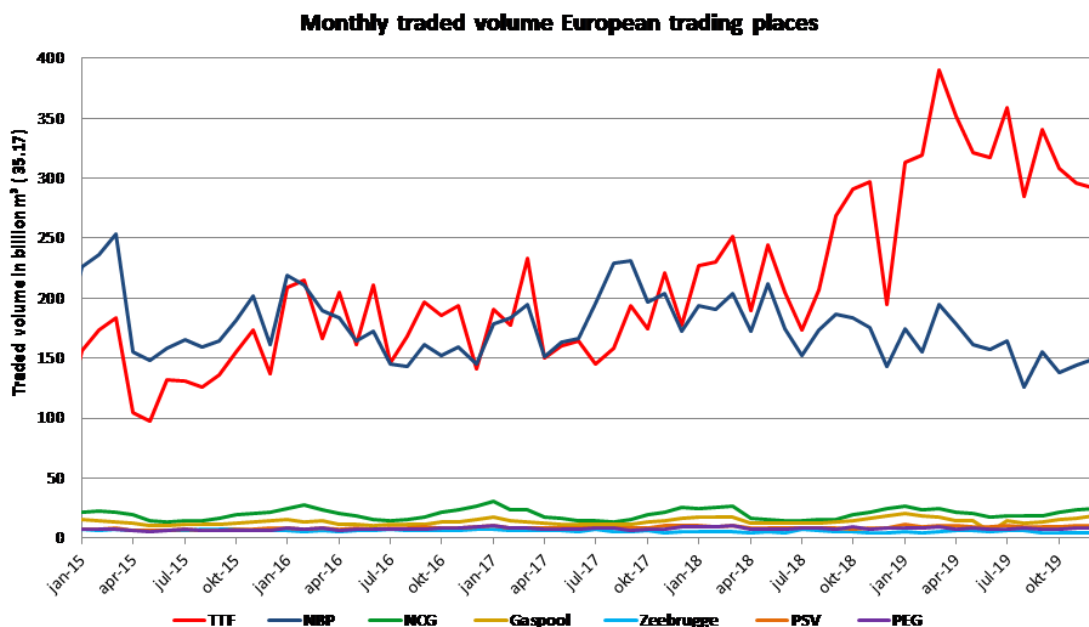


1.3.5.1.

### 1.3.6. Liquidity

The European hubs with the highest traded volume are the English NBP and TTF. NBP used to be the largest hub, but was overtaken by TTF in early 2016. TTF strengthened its leading position in 2019 as the volume traded rose by 40%, while the volume traded on NBP fell by 12%. TTF now has a market share of almost 60%. The German hubs NCG and Gaspool have a relatively small share, just 6.6%.

#### 1.3.6.1. Traded volumes on European marketplaces



Various developments have impacted on the strong growth of TTF into a European and worldwide benchmark for gas. The threat of Brexit has caused parties to move from NBP to TTF for their hedging, and LNG players that operate at a global level are also more likely to hedge their portfolios via TTF. Another important factor is that the supply of LNG has increased dramatically since the second half of 2018, in other parts of North-West Europe as well; this has led to re-hedging of volumes for winter and summer.

#### 1.3.7. LNG

The supply of LNG has increased strongly since 2018 as various new LNG production plants have come on stream, especially in the US and Australia. In addition, the growth of gas demand in East Asia has not met earlier expectations, leading to oversupply since that year. Russia also increased its capacity strongly in 2019 with the commissioning of Yamal.

Weak growth in East Asia led to lower LNG prices in that region and consequently to a smaller spread between prices in East Asia compared to NBP and TTF. This means that more LNG is being brought into Europe, especially from the Atlantic Basin and Yamal.

Many parties expect this situation to remain in place for a number of years. The oversupply makes Europe more interesting as a sale market for LNG, even at times when the price in Europe is less attractive than in Asia. This means that LNG has become an important factor in the supply/demand situation in Europe.

#### 1.3.8. Regulation

GasTerra faces regulation at national and European level that affects its business operations. We monitor developments and try to influence policy plans where this is possible and sensible. In the case of new regulations, the company does its best to ensure that it can comply with these obligations in good time.

GasTerra is subject to the *Regulation in Energy Markets Integrity and Transparency* (REMIT) and the *Market Abuse Regulation* (MAR). These regulations, which apply to wholesale energy products and financial instruments respectively, prohibit insider trading and market manipulation. In addition, market players have to comply with extensive reporting requirements in the context of REMIT. GasTerra has implemented the necessary procedures for this.

The revised *Markets in Financial Instruments Directive* (MiFID II) came into force for energy companies that trade in financial instruments in 2018. Trade in contracts is one of these financial instruments. This is a secondary activity for GasTerra, and so we make use of the secondary activity exemption provided for under MiFID II.

The European Network Code Tariffs (NC TAR) will be implemented in full in the Netherlands from 2020. This will lead to a different distribution of GTS income from entry and exit points (40%/60%). In addition, the same transport tariff will apply to all GTS entry and exit points from 1 January. The discount for transport from and to storage facilities will rise from 25% to 60%. After the first quarter of 2020, various border points on the Dutch border will be combined into a new virtual point (VIPs).

Over the coming year there will be more clarity as to the Method decision for 2022 and beyond. Important topics in the coming regulatory period are the decline in the use of the national network and investments in, among other things, hydrogen technology for the energy transition in combination with regulation of GTS's turnover. These developments are expected to lead to significant tariff rises in the years to come.

### **1.3.9. Energy and climate policy**

The Netherlands and the EU are working on the transition towards a climate-neutral energy supply. The Climate Accord presented on 28 June 2019 is a cornerstone of the Netherlands' climate and energy policy. The accord contains more than 600 agreements to counter the emission of greenhouse gases which apply to the electricity, built environment, industry, agriculture and transport sectors.

The electricity sector is required to produce 70 per cent of all electricity from renewable sources by 2030. This will involve the use of offshore and onshore wind turbines and solar panels on the roofs of buildings and in solar arrays. As electricity supply will be more dependent on weather variations, many measures will be needed to ensure reliable supply.

In the built environment, 7 million homes and 1 million buildings will have to stop using natural gas by 2050. As a first step, one and a half million existing buildings will have to be decarbonised by 2030.

Industry will have to be circular by 2050 and produce almost no greenhouse gas emissions. Factories will have to run on sustainable electricity from sun and wind or energy from geothermal heat, hydrogen and biogas. Raw materials will have to come from biomass, residual streams and residual gases. Residual heat will be used by industry itself or supplied to horticulture or buildings and homes. Industry is not only a user of energy but also a producer and buffer of energy. In 2030 it will have to emit much less CO<sub>2</sub> and have started down the road towards full sustainability. GasTerra is actively involved in decarbonising these sectors by working with partners to encourage the development of sustainable gases.

In Europe, the new European Commission headed by Ursula von der Leyen announced the Green Deal on 11 December 2019. This states that the European Commission aims to achieve climate neutrality in 2050 and a 50 to 55% reduction in CO<sub>2</sub> in 2030. This aims will be enshrined in a Climate Act. Energy legislation will be assessed and if necessary amended by the middle of 2021 at the latest. EU member states will adjust their national energy and climate plans to the new climate ambitions in 2023.

The package affects various areas of policy, including clean energy, sustainable industry and building and renovation. The plans will have to be translated into concrete measures in the years to come. In the context of clean energy various measures have been announced, including decarbonising the gas sector and increased support for the use of sustainable gases.

### **1.3.10. Green gas**

Green gas is mentioned in an increasing number of transition plans as a cost-effective and relatively simple sustainability alternative. In the climate accord the green gas sector indicates the ambition to produce the required 70 PJ of green gas in 2030.

The ministry for Economic Affairs and Climate Policy expects that in 2050 energy in the form of gas, preferably sustainable gas such as green gas and green hydrogen, will still have to account for between 40% and 60% of energy in order to ensure security of energy supplies. The Netherlands has a potential of 70 PJ (two billion cubic metres) in 2030 (source CE Delft). This gas is needed to decarbonise homes in towns and the countryside, parts of the transport sector and industries, since electrification, heat networks or hydrogen will not (yet) be feasible, affordable or ready for market.

Demand for green gas is growing strongly overall both in the Netherlands and in the rest of Europe as a consequence of the climate targets. In 2018, 115 million cubic metres of green gas was certified. In 2019 the volume rose to 144 million cubic metres. The certified volume is expected to rise to 180 million cubic metres in 2020. Biomass fermentation is currently the most widely used technology for producing green gas.

Nevertheless, the supply of green gas is still lagging far behind the increasing demand. Various bottlenecks, including obtaining licences for production sites and contracting sufficient sustainable biomass, mean that the production potential of green gas is not being fully exploited. Strangely enough, other bottlenecks relating to nitrogen emission and deposition are also holding back the growth of the production of sustainable gas. Incentives are needed to encourage green gas production. The government is working on policies to enable the green gas sector to create a sufficient supply of green gas. Innovation and cooperation within the green gas sector are also essential so that supply can grow substantially.

#### **1.3.11. CO<sub>2</sub>-dependent energy tax**

The discussions on the Climate Accord concluded that taxes on electricity and natural gas needed to be equalised. This resulted in an increase in tax on natural gas and a reduction in tax on electricity.

GasTerra is not opposed in principle to a redistribution of taxes, provided that this contributes to a reduction in CO<sub>2</sub> emission. Both electricity and (natural) gas can be used in a CO<sub>2</sub>-neutral way. GasTerra argues that the level of the energy tax should be related to the CO<sub>2</sub> emission of various types of gas, and therefore in 2019 commissioned the research firm CE Delft to investigate a CO<sub>2</sub>-emissions-based energy tax on gas.

A CO<sub>2</sub>-dependent energy tax is not only possible but also desirable, because it would encourage the production of gas and electricity with a small CO<sub>2</sub> footprint. After examining tax systems in other countries, CE Delft concluded that two approaches are possible: a source tax or an end user levy. In the case of a source tax the CO<sub>2</sub> emission is charged to the production of fossil energy as far as possible. The tax is in this case applied to the physical production or import of the gas. This tax can be raised at the feed-in points of the GTS network. The national network operators then charge the CO<sub>2</sub> tariff. All the tax is paid by GTS, which then passes it on to the shippers. In the case of an end user levy, the supplier is liable to pay the tax, as is the case at the moment, and passes it on to the end user.

In both versions, the CO<sub>2</sub>-dependent energy tax translates into a price for green gas certificates, resulting in a secondary market for sustainable gases. An effective monitoring system is essential for both versions. At an international level agreements need to be made with regard to the mutual recognition and cancellation of certificates within various incentive schemes (to prevent double counting).



The CE Delft study shows that a targeted CO<sub>2</sub>-tax is a more cost-effective method than a general energy tax for achieving climate targets provided that there is a transparent certification system for green gas. In that case the CO<sub>2</sub> emission tax would contribute to green gas production in the Netherlands and so improve the position of green gas in the long term and lead to lower energy transition costs in the Netherlands.

## 1.4. In dialogue with our environment

We are keen to know what society expects of us, and want to be transparent about our activities. This is why we are regularly in contact with our stakeholders, which are shown in the diagram below:



### 1.4.1.1. Stakeholder groups

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GasTerra regards it as important to obtain an insight into the views of stakeholders with regard to the organisation's economic, ecological and social impact. A stakeholder dialogue is conducted once a year, in addition to the regular discussions with stakeholders, in order to obtain this information. The intensity of these dialogues alternates, between an extensive stakeholder dialogue in which all the stakeholders represented in the diagram above are approached one year, with the following year a lighter version being carried out, in which we simply look at the extent to which developments have taken place that require an update on certain points. The findings from the stakeholder dialogue provide important information that is used in producing the materiality matrix. The materiality matrix is incorporated into the Business Plan and helps determine strategy. The annual report gives stakeholders information about the targets for the material issues that have been achieved. We have operated this cycle for some time. It is always possible that in the course of a year developments occur that can only be reflected in a subsequent cycle of the stakeholder dialogue process or a later Business Plan.

This situation occurred in 2019. In the period from June to October 2019 we carried out the extended version of the stakeholder dialogue through a survey and in-depth interviews. This was done before the decision was taken that GasTerra would eventually be wound up and that a phasing-out plan should be produced. Consequently, the stakeholder dialogue was based on the business as usual principle. However, when formulating the questions we did take account of a possible phasing-out scenario as GasTerra and its shareholders were already exploring various future scenarios in discussions. The outcomes of the stakeholder dialogue are therefore included in the formulation of the phasing-out plan which will be reflected in the 2021 Business Plan.

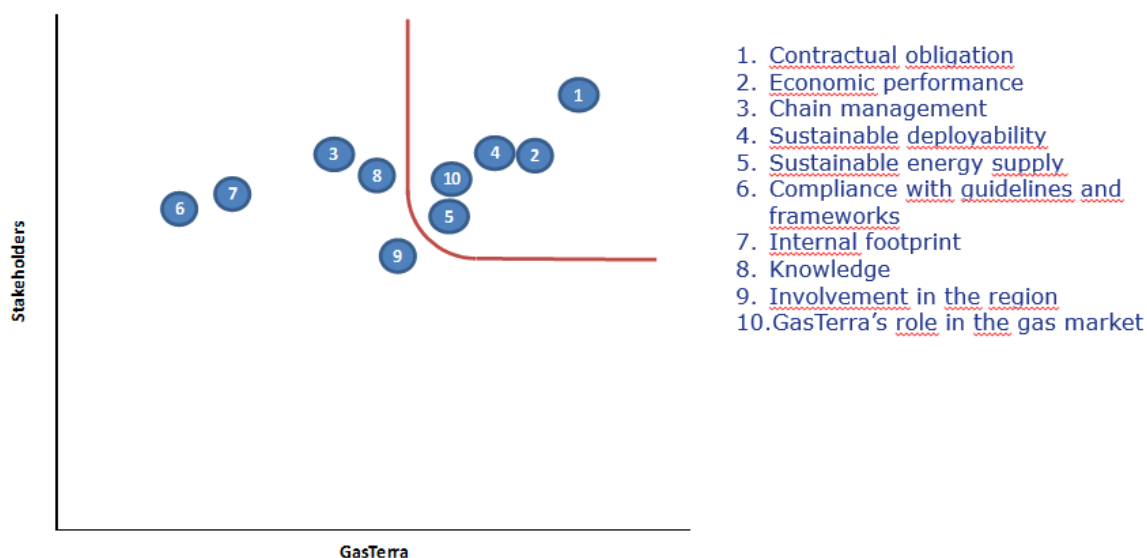
Our regular discussions with stakeholders do not give any cause to believe that the public announcement regarding the phasing-out of GasTerra will cause stakeholders to change their opinion of the organisation's economic, ecological or social impact. Consequently, we do not expect a stakeholder dialogue at present to produce markedly different results and different material issues.

In 2018 the role of GasTerra in the current and future gas market was discussed with a number of stakeholder groups. In addition to the company's role in the traditional gas market, the stakeholders also referred to our role in the market for renewable gases. Various parties were of the opinion that GasTerra must continue its current activities in the gas market, but stated that the company could also focus specifically on facilitating a market for renewable gases. This issue was put to all stakeholder groups in 2019, and topics discussed included future contractual relationships, the phasing-out of gas extraction in Groningen, maintaining a "quality-free" TTF (i.e. one that draws no distinction between low-calorific and high-calorific gas), the conclusion of import contracts and the extraction of natural gas from small Dutch fields. Another subject for discussion was the role of GasTerra on the market for renewable gases, especially the market for green (bio)gas and hydrogen. In these discussions it was established that stakeholders recognise and value GasTerra's contribution to the operation of the current gas market, especially on TTF. They also see a role for GasTerra in concluding (new) import contracts. The knowledge and skills which GasTerra has are seen as valuable to the energy transition. Parties also consider that these can be deployed in various situations, such as the establishment of a hydrogen market.

The results of the survey show that stakeholders are most interested in the extent to which GasTerra meets its contractual obligations. Behind this come the issues of sustainable deployability, chain management, economic performance and GasTerra's role in the gas market, with stakeholders attaching very similar levels of importance to each of these. During the in-depth interviews we obtained more background information on the results of the online survey.

GasTerra's management compared the importance that stakeholders attach to the issues with the importance that GasTerra itself attaches to them. This gives rise to the materiality matrix which forms part of the 2020 Business Plan and is a key element in the strategy to be developed. The material issues for 2020 are; contractual obligation, economic performance, sustainable deployability, role of GasTerra in the gas market and sustainable energy supply. These were also material issues in 2019. The issue of chain management (support for activities) was a material issue last year but has been dropped. GasTerra considers the chain to be important, but of limited influence in view of the nature of its activities.

In this report we address developments relating to the issues that were material in 2019 and set out the objectives for the material issues for 2020.



### 1.4.1.2. **Materiality matrix**

Sub-objectives for 2020 are determined for the material issues within the strategic goals of volume, price, costs and anticipation.







Material issue	Strategic goals	Objective for 2020
Contractual obligation	Volume Price	GasTerra complies fully with the contractual obligations.
Economic performance	Volume Price Costs Anticipation	We make maximum use of the resources in our portfolio.  We use the market potential for optimisation.  We make a margin on our sales and purchases.  Successful renegotiation of export and import contracts.
Sustainable deployability	Costs Anticipation	There are 0 accidents leading to time off work and the percentage of sickness absence is below 2.5% in the 2020 calendar year.  Creation of a phasing-out plan taking account of the sustainable deployability of employees.  Supporting employees as they move towards a suitable future.  Using employees' skills in external projects.
Sustainable energy supply	Anticipation	We take part in a number of projects on the Strategic Agenda of GILDE (Gas In a Long-term Sustainable Energy Management). We lead the Green Gas project.  In our energy transition budget we focus on sustainable gases such as green gas and hydrogen.

		Together with partners we develop a programme to achieve the required annual green gas production of two billion cubic metres in 2030 that is contained in the Climate Accord. To that end we take part in large-scale green gas projects.
Role of GasTerra in the gas market	Anticipation	<p>GasTerra puts NAM in a position to implement the operational strategy laid down by the minister of Economic Affairs and Climate Policy and aims to sell the annual volume of Groningen gas offered by NAM. The annual volume offered by NAM is based on the degree/day formula set by the minister for Economic Affairs and Climate Policy.</p> <p>Review of GasTerra's mission and vision in relation to the phasing-out plan to be drawn up</p>

#### 1.4.2. Value creation model

The more rapid phasing-out of gas extraction from the Groningen field means that the core activity of GasTerra will eventually cease. The shareholders have therefore asked GasTerra's Board of Management to set up a phasing-out plan for the company after considering various future scenarios. This plan will be drawn up in the first half of 2020, and will be based on the principle that GasTerra will still be able to contribute to responsible extraction of gas from the Groningen field in the coming period and continue to comply with its contractual obligations. The value creation model shows how GasTerra adds value through its current mission, vision and strategy. This mission and the related strategy were also the starting points for business operation in 2019, but in 2020 they will have to be adapted in the light of the decision on gas extraction in Groningen and the future phasing-out of GasTerra. A new value creation model will be drawn up on that basis if necessary.

## Inputs

-  **Gas**
  - Total volume 51.5 bln m3
  - Groningen
  - Small fields
  - Virtual trading points
  - Import
  - Green gas
-  **Gas market**
  - Fluctuating gas price
  - Gas contracts
  - Licences
  - Trading partners
  - Underground gas storage
-  **Organisation**
  - 131,2 Fte
  - 141 employees
  - Diversity
  - Working conditions
  - Head office Groningen
-  **Knowledge and systems**
  - Knowledge of the gas market
  - IT systems
-  **Finances**
  - Shareholders' equity €180 mln
  - Investments €2.0 mln
-  **Society**
  - Stakeholders
  - Image of gas

## Business Model

**Maximising the value of Dutch natural gas**

**Anticipation**

GasTerra anticipates a changing environment and listens to its stakeholders so that opportunities and threats can be identified and so that GasTerra can continue to fulfil its mission of value maximisation in the future.

**Volume**

GasTerra aims to sell the entire volume of gas offered to GasTerra.

**Price**

GasTerra aims to achieve a price in line with the market with the highest possible margin for the entire portfolio.

**Costs**


GasTerra ensures a correct balance between costs on the one hand and value and care on the other hand.

Governance
Risk Management
Public Affairs
Public Relations

## Outputs


-  **Gas**
  - Total volume 51.5 bln m3
  - Virtual trading points
  - Client connections
  - Border points
-  **Gas market**
  - 100% compliance with contractual obligations
  - 28.5 billion m3 NL gas purchased (Groningen & Small fields)
-  **Organisation**
  - 101 men, 40 women
  - 1.67% sickness absence
  - Safety/accidents
-  **Knowledge and systems**
  - Training costs: 1.09% of total staff costs
  - Training and career opportunities
  - 99.95% availability of highly critical systems
-  **Finances**
  - Turnover €8.832 mln
  - Netto-winst €36 mln
  - Werkkapitaal €241.9 mln
  - S&P credit rating AA+ (Negative Outlook)
-  **Society**
  - Participating transparency benchmark
  - Sharing and developing knowledge about energy (transition)
  - Supporting energy transition projects
  - Improving the sustainability of industrial clients
  - Sponsorship in the region
  - Local procurement of facilities worth 6.4 million euros

## Outcomes




**Gas**

- Security of supply of the company's own portfolio
- Good relations with clients and suppliers
- Benefits of natural gas



**Green**

- Sharing and developing knowledge about the role of gas in the energy supply in R&D, education and public debate
- Contributing to the rational transition to a climate-neutral energy supply



**Groningen**

- High-quality job opportunities in the region
- Making a valuable contribution to the local community

## 1.5. Summary of results

	2019	2018
<b>Income and expenditure in millions of euros</b>		
Revenue	<b>8,832</b>	11,153
Gas purchases	<b>8,433</b>	10,779
Transmission costs	<b>271</b>	274
<b>Profits in millions of euros</b>		
Profit before tax	<b>48</b>	48
Net income	<b>36</b>	36
Dividend	<b>36</b>	36
<b>Other financial information</b>		
Investments (in millions of euros)	<b>2.0</b>	1.4
Liquidity ratio	<b>1.2</b>	1.1
<b>Balance sheet data at year end, in millions of euros</b>		
Total assets	<b>1,332</b>	1,960
Shareholders' equity (before profit appropriation)	<b>216</b>	216
Current liabilities	<b>1,083</b>	1,744
<b>Volumes sold in billions of cubic metres*</b>		
Total sales	<b>51.5</b>	55.5
-The Netherlands	<b>32.3</b>	31.8
-Rest of Europe	<b>19.2</b>	23.7
<b>Company staff at year-end, in full-time equivalents</b>	<b>131.2</b>	141.4
<b>Health and safety</b>		
Sickness absence (in %)	<b>1.67</b>	2.47
Average absenteeism rate	<b>0.81</b>	0.98

The solvency ratio of GasTerra is not included because it is not representative as a result of the agreements among the various entities in the Dutch 'Gasgebouw' (see the financial statements, chapter 4). One of them relates to the transfer price for Groningen gas, as a result of which GasTerra makes a fixed profit of 36 million euros.

Investments are not material, and relate mainly to the capitalised costs of software developed in-house to support the business processes.

## 2. Material issues

The material issues for 2019 were contractual obligation, economic performance, sustainable deployability, sustainable energy supply and support for activities. These issues were determined partly on the basis of the outcomes of the stakeholder dialogue conducted in 2018 and served as input for the strategy in 2019. We discuss these material issues in more detail in this chapter.

### 2.1. Contractual obligation

Contractual obligation was one of the themes in the stakeholder dialogue. By this we mean that our company must have enough gas in portfolio at every point in the year to be able to meet our supply obligations to our clients. This is the most important topic for stakeholders, especially our clients. Compliance with these obligations is also the top priority for GasTerra. To make this possible, GasTerra must ensure that its sales obligations are in line with its supply. In the past it was possible to do this by adjusting the Groningen field upwards or downwards; now we balance this by purchases and sales on the market.

### 2.2. Economic performance

It is obvious that the company regards economic performance as a material issue. If the economic performance is not good, this affects all stakeholders. In this context the company tries to achieve an efficient business operation with a good balance between costs and care.

#### 2.2.1. Purchasing

In 2019 GasTerra bought 51.5 billion cubic metres of gas (2018: 56.0 billion cubic metres). 16.2 billion cubic metres of this came from the Groningen system (including storage facilities) and 12.3 billion cubic metres came from small fields. 23.0 billion cubic metres was purchased mainly on trading hubs and via imports.

The volumes from the Groningen system are different from the production figures reported by NAM. This difference is due to a number of factors, including own use in production and the difference between injection and production from the underground storage facilities. In addition, GasTerra reports volumes on a calendar year basis, while the extraction order issued to NAM is bound to the gas year.

Over the past decade, the purchase of gas from small fields has declined year on year by around two billion cubic metres. This is because the reserves in the small fields are shrinking (depletion). This reduces the pressure in these fields and causes production to fall gradually. Although reserves are still being found in new fields, this does not compensate for the decline in production. A further fall is expected in the years to come. These forecasts are based on reports from producers and TNO.

In 2019 GasTerra imported 9.0 billion cubic metres from Norway, Russia, Germany and the United Kingdom. The long-term nature of the import contracts meant that once again there were fewer changes in this segment than in previous years.

### 2.2.2. Supply

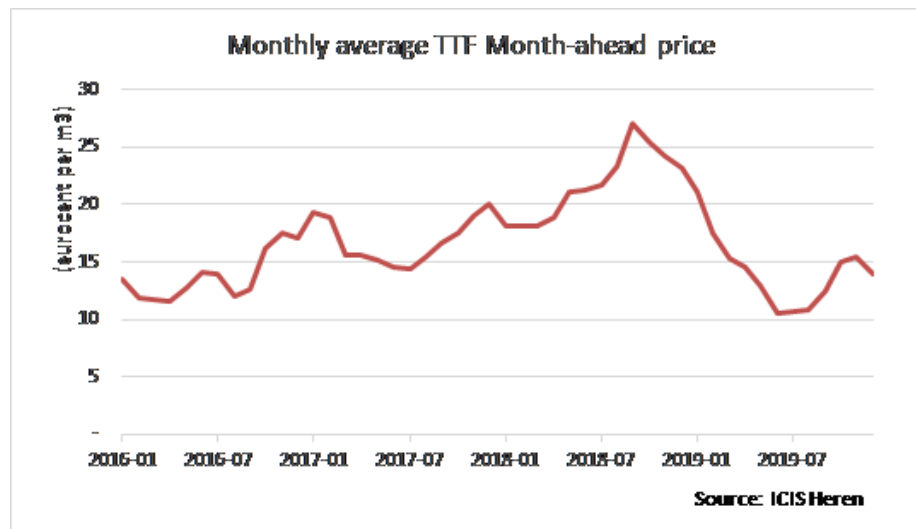
In 2019 GasTerra supplied 51.5 billion cubic metres of gas to clients (2018: 55.5 billion cubic metres and a stock change of 0.5 billion cubic metres). Some of the gas supplied was supplied to the traditional supply points such as connections and border points. We also supply much of our gas to our clients on TTF, from where they can trade it on or transport it to their end users.

This means that the gas can change hands several times before finally reaching the end user. This means that gas contracted by foreign parties does not necessarily cross the border, and gas that we sell on the TTF can eventually leave the country.

### 2.2.3. Pricing

The prices of gas supplied by GasTerra were lower than in 2018, standing on average at 17.0 eurocent per cubic metre as against 20.0 eurocent in 2018. These lower prices are related to prices on trading hubs. The prices on the TTF were on average lower in 2019 than in previous years. The month-ahead price in 2019 was on average 7.5 eurocent/cubic metre lower than in 2018. In the middle of 2019 this price fell to a very low level, on some days around 9 €/MWh. This had not happened since 2009.

After the peak in October prices started to drop dramatically in response to a strong rise in LNG imports, and fell back again in the winter months. This meant that much less use was made of the reserves. This fall continued in the spring of 2019.



#### 2.2.3.1. Trend in average monthly TTF prices

As the volumes purchased from the Groningen field are gradually falling, and the volumes that GasTerra buys on the spot market are rising, it is increasingly important for price concepts of purchases and sales in the portfolio to be properly aligned. It has now become apparent that GasTerra is well positioned to managed the effects of price fluctuations in the portfolio.

Several existing import and export contracts were renegotiated in 2019. Arbitration takes place where no agreement can be reached. GasTerra was involved in two cases of arbitration in 2019 that had still not been concluded by the end of 2018. One of these cases of arbitration was concluded by the end of 2019. In addition, two new cases of arbitration started in the beginning of 2019 and had not been concluded by the end of 2019.



As the outcomes of renegotiations or related arbitration that are still unresolved are uncertain, the possible outcomes of these proceedings are not reflected in the financial statements.

#### **2.2.4. Transport**

In order to meet the obligations under our trading contracts we book transmission capacity with network operators, especially GTS. In 2019, the costs of purchasing transmission capacity stood at 271 million euros. That is 3 million euros lower than in 2018. GasTerra no longer needs large quantities of transport capacity booked for many years ahead. This “not needed” transport capacity is offered for sale by GasTerra on the secondary market, but with only limited success. GTS takes the view that this not-needed capacity cannot simply be cancelled. Costs build up as the transport tariffs charged by GTS are rising. This is set against higher income for GasTerra. A solution to this problem that takes proper account of the interests of all parties concerned will have to be found in the coming period.

### **2.3. Sustainable deployability**

The decision to phase out GasTerra will of course have a major impact on employees. It is true that this decision provides clarity after a long period of uncertainty as to the consequences of stopping gas extraction in Groningen, but it does mean that all employees will eventually lose their jobs, which is clearly a matter for concern. The exact path that phasing out will take is as yet unclear. In the period to come this will be translated into a phasing-out plan. In any event, we are now entering a period in which GasTerra will certainly have to continue on the old footing for the immediate future, but at the same time employees will want to invest in their future outside the company, which presents the company with a particular challenge.

In its role as an employer, GasTerra will provide the maximum support possible on all aspects in consultation with its employees. A social plan has been drawn up to this end, containing a compensation and support package. The basic idea is to help employees transfer from one job to another, making departures easier during the phasing-out period without of course putting business continuity at risk.

Employee motivation and involvement remain crucial so that we can maintain the high quality that stakeholders are used to receiving from us even in the phasing-out period. This requirement is a crucial element of the new HR policy that came into effect in 2019 and in which the personal development of employees and career development both inside and outside GasTerra were central.

### **2.4. Role of GasTerra in the gas market**

The role of GasTerra in the current and future gas market was part of the stakeholder dialogue in 2018 and 2019. In addition to the role in the traditional market, stakeholders also referred to the market for renewable gases. This material issue has taken on new significance as a result of the recent decision to phase out GasTerra.

GasTerra has a key function in the Dutch gas chain. It is the only purchaser of Groningen gas and also the largest purchaser of small field gas. We have a dual task. Firstly, we have to keep our portfolio in balance. This means that the contracted volume of purchases and sales must be aligned. In addition, we are required to enable the transporter of the gas, GTS, to physically balance the gas network. As soon as the amount of gas in the system is too low or too high, gas is sold or brought in to restore the balance.

GasTerra has various sources from which it can supply the low-calorific gas on which millions of households and a large number of major consumers depend. The first of these is the gas storage facility in Norg, which can now be partly filled with 'pseudo-Groningen gas' (high-calorific gas that has been converted into Groningen quality gas by adding nitrogen). There is also a gas storage facility in Alkmaar. Finally, probably until the middle of 2022, 'true' Groningen gas. Although production from the Groningen field has fallen considerably in recent years, it will remain essential until that year in order to guarantee security of supply.

High-calorific gas comes from the small Dutch fields and abroad. The gradual phasing-out of Groningen and the exhaustion of the small fields has meant that the Netherlands has become a net importer of natural gas. Import needs will rise in the years to come. GasTerra imports roughly a third of this gas (situation as of 2018). As GasTerra will not contract any additional import volumes, parties other than GasTerra will in future have to import ever-increasing volumes from abroad.

Finally, GasTerra can make use of the trading hub TTF. This is not a physical point but a virtual location where gas already in the system is traded. This brings supply and demand together, and is also where gas prices are set. Shippers with an imbalance in their portfolio can resolve it directly by buying or selling gas.

Although GasTerra is now entering its phasing-out stage and will therefore eventually disappear, our comply remains partly responsible for balancing the gas system while it remains in existence. GasTerra also has long-term arrangements with a number of major foreign clients and producers. The agreements contained in these arrangements will not disappear once GasTerra has ceased to exist, and so the way they are dealt with needs to be settled in the future.

GasTerra is the largest supplier of green gas in the Netherlands. The need for this will only increase in the context of the necessary energy transition. Hydrogen will also play an increasingly important role in the sustainable energy mix. A fully-functioning trading market needs to be created for this energy carrier. Even during the phasing-out period, GasTerra will continue to make the greatest contribution possible to developing this market by making its knowledge and experience available.

## **2.5. Sustainable energy supply**

GasTerra considers it important to contribute to the transition to a climate-neutral energy supply. In this we focus on the topic of renewable gases (green gas and hydrogen), as this is a good fit with our role as a gas trader. Stakeholders have also said that they believe GasTerra's knowledge and skills in relation to the gas market to be valuable to the green gas market and in the creation of a hydrogen market.

In 2020 we will continue to contribute to GILDE projects in which the gas sector shows that it contributes to the energy transition. In the context we will lead the Green Gas project and contribute to the Hydrogen theme.

### **2.5.1. Green gas**

There is sufficient demand for green gas, the bottlenecks lie on the production side. GasTerra helps to improve the conditions for production growth in various ways. A number of new innovation projects in the area of fermentation and gasification of biomass received financial support in 2019.

This support allowed demonstration plants to be constructed, measurement and research programmes to be carried out, scientific knowledge to be incorporated and market research to be conducted. The intended project outcomes are cost reduction, increase in earnings and making new technologies such as high-pressure fermentation and various gasification technologies (super-critical water gasification, torrefaction/pyrolysis, manure gasification, radiolysis) ready for market.

In the area of project support, GasTerra is involved in new production plants of Bio Energy Netherlands in Amsterdam and Delfzijl, Stercore in Emmen, a wood gasification pilot project called INSPIRE-ME in Leeuwarden and BlueSphere's green gas project in Sterksel.

As far as knowledge development goes, GasTerra has contributed to the National Sustainable Gases Debate and assisting with the creation of the Green Gas Route Map being developed by the Ministry for Economic Affairs and Climate Policy. Market research into the technological status of methanisation has also been carried out. Another report commissioned by GasTerra shows the impact of CO<sub>2</sub>-based energy taxation.

In the Groningen region, GasTerra takes part in the Groninger Groen Gas Genootschap (4G) [Groningen Green Gas Community], a body involving various parties from the gas sector with Groningen council that aims to develop the green gas potential in the area. GasTerra has also provided financial support for the Atlas of Sustainability which was recently published, and contributed to the section on green gas. The Atlas of Sustainability is aimed at a broad public and is made available to schools with associated lessons.

Due to our prominent position in the green gas sector GasTerra is expected to have more than 78 million cubic metres, or 50% of current green gas production, under contract in 2020. Contracts with parties developing new installations will cause the portfolio to grow to over 150 million cubic metres in 2023. Last year GasTerra continued to work on developing a green gas portfolio by also purchasing the associated green gas certificates issued by and registered with Vertogas for part of the contracted green gas production. The sale of this volume of green gas has also begun, in the form of many discussions with interested clients that wish to decarbonise. A number of concrete and favourable opportunities for selling this volume of green gas appear to exist. We expect the first green gas sale contracts to be concluded in 2020.



2.5.1.1.

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## 2.5.2. Hydrogen

We take part in external hydrogen projects to promote the development of a free hydrogen market thanks to our experience on the gas market and to obtain knowledge. GasTerra employees are taking part in various hydrogen projects, including H-Vision and Hydrogreenn.

Hydrogreenn is a project run by Hoogeveen council in which around 80 homes in the new district of Nijstad-Oost will be run entirely on hydrogen. The aim of this project is to provide a (technical/economic) blueprint and associated technology so that the heat supply to these homes can be entirely hydrogen-based (H<sub>2</sub>) thanks to a hydrogen boiler. This blueprint and technology must be transferrable to existing residential districts in the rest of the Netherlands. The hydrogen project is a unique joint venture involving 23 organisations that cover the entire chain, consisting of authorities, knowledge institutions and companies.

The H-vision project for large-scale production and use of hydrogen offers industry in Rotterdam the opportunity to reduce CO<sub>2</sub> emissions significantly even before 2030. This is the result of the feasibility study into the use of hydrogen as an alternative to fossil fuels in energy supplies to industry carried out by sixteen parties, including GasTerra, under the leadership of Deltalinqs. H-vision focuses on the production of blue hydrogen, which is produced from natural gas and residual gases from industry. The production process involves the release of CO<sub>2</sub>, which is stored safely in empty gas fields under the North Sea or reused, for example as growth accelerators in greenhouses in the region.

The infrastructure and installations created by H-vision sets out the path for the large-scale introduction of green hydrogen at a later stage. In this way H-vision is the start of the hydrogen economy in Rotterdam and so makes a significant contribution to meeting climate targets.

In addition to participation in hydrogen projects, we also carried out a stakeholder consultation and an academic study into the development of a hydrogen market. The stakeholder consultation was carried out with 15 different parties, including government bodies, industries, companies in the energy sector and a non-governmental organisation (NGO). The aim was to collect views on the possible development of a hydrogen market and examine how GasTerra could contribute to it.

This consultation showed that the stakeholders interviewed did not have a clear picture of the hydrogen market. Most of the stakeholders believe that the government needs a long-term vision in order to give the market the chance to grow. There is also a need for clarity as to the development of an infrastructure and the role of public partners within it. The stakeholders consider that traders such as GasTerra have a role in a future liquid hydrogen market, but they do not expect the necessary liquidity to be achieved before 2030. According to the stakeholders, GasTerra should at present be able to share views on the possible structure of a hydrogen market with other parties concerned.

In line with this, GasTerra commissioned Groningen University to conduct research into the economic conditions under which hydrogen can be produced and traded. The research also looked at what market structure would be necessary for this. The conclusions were published in the report *'Outlook for a Dutch hydrogen market. Economic conditions and scenarios'*. The research team, consisting of Professor Machiel Mulder, Professor Jose Luis Moraga and Peter Perey, concluded that green hydrogen can only be produced profitably if the price of natural gas is high for a prolonged period and companies have to pay higher taxes for using natural gas. The researchers also found that it is much cheaper in the Netherlands to produce blue hydrogen than green hydrogen, and that this situation is unlikely to change in the short term. If work on developing the hydrogen market is to start soon, it seems that the most sensible route economically speaking lies through blue hydrogen.

Groningen University is to analyse the economic feasibility in a follow-up promotional study. This research will be carried out in conjunction with institutes from Denmark, Germany, Italy and Austria. In addition to a grant from the Dutch scientific research organisation NWO, Professor Mulder has received financial support of 250,000 euros from GasTerra in conjunction with the New Energy Coalition (NEC).

## **2.6. Support for activities**

Natural gas has lost its long-standing good image in the Netherlands, mainly because of the earthquake problems resulting from gas extraction in Groningen and also the realisation that the use of fossil fuels leads to climate change, with all the undesirable consequences. This means that the position of natural gas in the energy mix is under pressure.

This is a pity. More and more experts believe that gas will have to retain a vital function in the energy supply well into the future in order to secure the energy supply while at the same time pushing forward with the energy transition. But in order to continue to play this role effectively, the gas sector must strengthen the support for its activities, or regain it if it is lost. After all, without support ('licence to operate'), every company in the sector would eventually lose its right to exist. Social support is therefore a material issue for GasTerra.

The consequences of the earthquakes in Groningen still require close attention. In September 2019 the Minister for Economic Affairs and Climate Policy stated in a letter to the Lower House of the Dutch Parliament that production in Groningen would stop more quickly and that this would improve safety in Groningen. It is expected that from 2022 onwards in an average year there may be no production at all. The companies involved, including GasTerra, have to carry out this operation in a responsible manner. Dealing with the damage caused and strengthening buildings remain the top priority for the government.

Our product, gas, plays a vital role in the transition towards a climate-neutral energy supply. The gas sector, working together in the sectoral organisation KVGN, has therefore developed a vision linking the need to continue working towards a CO<sub>2</sub>-neutral energy supply to maintaining the current level of security of supply at the lowest possible social cost. This vision divides energy users into three clusters: industry, the built environment and transport. For each of these clusters the KVGN describes a transition to climate neutrality in which sustainable sources, including renewable gases such as hydrogen and green gas, will have an ever-growing role. Fossil sources will eventually disappear more or less completely from the mix. Where this is not (yet) possible, compensatory measures such as capture and underground storage of CO<sub>2</sub> (CCS) must ensure that these resources can nevertheless be used in a climate-neutral way.

The core of this vision is that decarbonising the energy supply can only succeed if renewable gases (molecules) are deployed alongside green electricity (electrons) and geothermy. As long as renewable gases cannot meet the entire demand for energy, natural gas remains desirable and necessary as the least harmful of the three fossil fuels. In other words, gas has become customised.

GasTerra helps increase the acceptance of gas as a lasting and vital part of the energy supply by sharing its knowledge in this area with all relevant stakeholders, supporting projects and initiatives that focus on research and development, and promoting the use of renewable gas and the production of green gas.

In the year under review GasTerra organised a meeting about the energy transition during the Groningen theatre festival Noorderzon, at which various local stakeholders met and exchanged views. The Quintels Energy Transition Model ([www.energytransitionmodel.com](http://www.energytransitionmodel.com)) provides opportunities for the discussion of transition issues and the collection of ideas to overcome barriers in the transition.

## 2.7. Involvement in the region

Although involvement in the region is not a material issue, GasTerra devotes considerable attention to it. Since its inception we have positioned ourselves as a Groningen company.

We make efforts to help the northern Netherlands develop into an energy (transition) knowledge centre. We do this in various ways, such as by focusing on our region when pursuing our energy transition policy. Examples of this include the New Energy Coalition (a joint venture including the Energy Academy Europe, the Energy Delta Institute and Energy Valley), EnTranCe, ESTRAC and the long-term project 'Duurzaam Ameland' (Sustainable Ameland). We also work on various educational projects, often with other partners. Examples include the travelling classroom 'Jouw Energie van Morgen' (Your Energy of Tomorrow), the 'VMBO Battle' (Battle intermediate vocational education provision) and activities carried out by the 'Instituut voor Natuureducatie IVN' (Institute for Nature Education).

GasTerra is active as a stakeholder in the Regional Energy Strategy (RES), especially when it comes to sharing knowledge about green gas. The RES is the offer that the regions make to the government in the context of achieving the objectives of the Climate Accord: 49% less CO<sub>2</sub> emission in 2030 and 95% less in 2050. In the case of the RES, this involves two of the five "climate panels", those relating to electricity and the built environment. It is not involved in the other three (agriculture, industry and transport). The RES also works on the onshore (not offshore) production, storage and transport of energy. In the RES each region indicates how it is going to deal with energy transition: switching from fossil fuels to sustainable energy.

How and where can we generate electricity without using fossil fuels? What is the regional supply and demand situation for heat? How can energy be stored and transported? How can we ensure that the burdens are shared fairly and that residents really share in the benefits? And, a point that must not be ignored, how can we fit the generation, storage and transport of energy well into the scarce space available, while respecting typical regional features? An important starting point is that the regions draw up their RES in close cooperation with residents, social organisations and companies. This must lead to regional plans that can count on broad social support.

The initial document for the Groningen RES was drawn up this autumn by all twelve Groningen local councils, the executive committees of the Groningen water boards and the Provincial States. The government asked the regions to submit a draft RES on 1 June 2020. After they have been assessed by the government and the Habitat Planning Office, the regions will further develop their drafts. The regions are required to have completed and submitted their first RES by 1 March 2021. These will thereafter be revised and updated every two years.

With regard to sponsorship, we focus mainly on the town and region of Groningen. GasTerra sponsors various activities in the fields of culture, education, society and mass-participation sport. Sponsorship has mainly a social function, but also raises the profile of the company and its business activities. In 2019 we spent 340,000 euros on sponsorship and donations (in 2018: 370,000 euros).

In November GasTerra employees held a special breakfast event which raised 8,500 euros for the Groningen food bank, which provides products specifically to ensure that children in poor families have a good breakfast and lunch. All GasTerra employees and management were invited to a paid breakfast. This raised a lot of money, and GasTerra management decided to multiply the money raised by a factor of ten. The money will allow the food bank to offer over four thousand breakfasts in 2020. GasTerra employees will also work as volunteers at the food bank in the coming months.

We want to contribute to a structural strengthening of the Groningen economy. We are also interested in the image of gas and the role of GasTerra in the province of Groningen. We do this in various ways, for example by offering financial support, knowledge and resources to the 'De Uitdaging' ('The Challenge') project and via the 'GasTerra Meer met Minder Fonds' ('The GasTerra Energy Saving fund'). The aim of this fund is to encourage energy saving among social institutions. This is done by granting an interest-free loan that is "earned back" by energy bill savings. The money brought back can be reused for new investments in energy saving.

When purchasing non-gas-related products and services, we prefer to work with local suppliers to stimulate the Groningen economy. When making a choice from the available suppliers, we consider their location in addition to sustainability, price and quality. In 2019 the total commitments entered into for non-gas-related purchases amounted to 20.5 million euros. Of this, 6.4 million euros was spent with local suppliers. (2018: total 22.4 million euros, of which 10.3 million was spent locally).

## 3. Governance

We believe that it is self-evident that we should report in a transparent manner on how our company is run and supervised.

### 3.1. Report of the Board of Supervisory Directors

#### 3.1.1. Composition

The Board of Supervisory Directors oversees the policy of the Board of Management and the general business performance at GasTerra. The Board of Supervisory Directors comprises eight members, one of whom is appointed by the Minister of Economic Affairs and Climate Policy. The Board appoints a chairperson from among its midst; this appointment has to be approved by the Minister of Economic Affairs and Climate Policy.

The Board of Supervisory Directors appoints from among its midst a College of Delegate Supervisory Directors, comprising five members, one of whom is appointed by the Minister of Economic Affairs and Climate Policy. The Board may delegate its powers to the College, in so far as this delegation does not infringe the duties and powers of the Board of Supervisory Directors.

The company's Articles of Association lay down that two members of the Board of Supervisory Directors are to step down each year at the General Meeting of Shareholders according to a rotation schedule determined by drawing lots. The members who step down may be re-elected or reappointed immediately. Successive members of the Board of Supervisory Directors take the place of their predecessors on the rotation schedule.

Mr. F.A.E. Schittecatte MSc stood down on 1 April 2019 and was replaced by Mr. L. Zirar MA who was appointed supervisory director on the same date.

Name	Term of office	Capacity	Date of appointment
<b>B.C. Fortuyn MSc</b>	Re-electable in 2021	Delegate Supervisory Director	12 February 2018
<b>R.M. de Jong MA</b>	Re-electable in 2022	Delegate Supervisory Director	1 August 2016
<b>R.G. de Jongh MA</b>	Re-electable in 2021	Member of the Board of Supervisory Directors	1 April 2016
<b>A.F. Gaastra LLM</b>	Eligible for reappointment in 2022	Delegate Supervisory Director	15 September 2016



<b>Name</b>	<b>Term of office</b>	<b>Capacity</b>	<b>Date of appointment</b>
<b>J.W. van Hoogstraten MSc</b>	Re-electable in 2023	Delegate Supervisory Director	1 March 2016
<b>T.W. Langejan LLM MA</b>	Re-electable in 2020	Member of the Board of Supervisory Directors	15 February 2016
<b>J.M.W.E. van Loon MSc</b>	Re-electable in 2020	Delegate Supervisory Director	1 January 2016
<b>F.A.E. Schittecatte MSc</b> (until 1 April 2019)	Re-electable in 2023	Member of the Board of Supervisory Directors	15 February 2014
<b>L. Zirar MA</b> (from 1 April 2019)	Re-electable in 2023	Member of the Board of Supervisory Directors	1 April 2019

### 3.1.2. Meetings

The Board (including the College of Supervisory Directors) met eight times in the presence of the Board of Management. The Audit Committee (AC) was also represented at one of the meetings. At the invitation of the Board, the external auditor was present at the meeting in which the Annual Report and Accounts relating to 2018 were discussed and approved.

	<b>Board of Supervisory Directors</b>	<b>College of Delegate Supervisory Directors</b>	<b>Audit Committee</b>
<b>B.C. Fortuyn MSc</b>	2/2	6/6	n.a.
<b>J.M.W.E. van Loon MSc</b>	2/2	5/6	n.a.
<b>J.W. van Hoogstraten MSc</b>	2/2	5/6	n.a.

	<b>Board of Supervisory Directors</b>	<b>College of Delegate Supervisory Directors</b>	<b>Audit Committee</b>
<b>A.F. Gaastra LLM</b>	2/2	6/6	n.a.
<b>R.M. de Jong MA</b>	2/2	6/6	n.a.
<b>R.G. de Jongh MA</b>	2/2	n.a.	n.a.
<b>F.A.E. Schittecatte MSc</b>	1/1	n.a.	n.a.
<b>L. Zirar MA</b>	1/1	n.a.	n.a.
<b>T.W. Langejan LLM MA</b>	2/2	n.a.	3/3
<b>A.J. van der Linden MA</b>	n.a.	n.a.	2/3
<b>A.J. Boekelman MA</b>	n.a.	n.a.	1/1
<b>P.W. Gerssen MA</b>	n.a.	n.a.	3/3
<b>P.J. de Vries RA MA</b>	n.a.	n.a.	1/2

*The first number shows the number of meetings attended, the second number is the number of meetings that took place during the period in which the individual was in post.*

Ms. Van Loon was unable to attend one of the College meetings and was represented at that meeting by Mr. De Jongh. Mr. Van Hoogstraten was unable to attend one of the College meetings and was represented at that meeting by Mr. Fortuyn.

### **3.1.3. Objectives and strategy**

Discussions with the management took place regarding the company's strategy and how to translate this into objectives for the future. Maximisation of the value of Dutch natural gas has for many years been GasTerra's mission. This mission and the associated strategy remained the starting points for business operation in 2019, but will be adapted in 2020 in the light of the decision regarding gas extraction in Groningen and the phasing out of GasTerra.

The decisions taken since the beginning of 2014 by the minister for Economic Affairs and Climate Policy on the deployability of the Groningen field, as a consequence of the developments in the Groningen earthquakes dossier, have had a major influence on GasTerra's business operations. In 2018 the minister decided that extraction of Groningen gas should be significantly reduced in the years to come, and that it should eventually end completely. As a consequence, GasTerra's shareholders have discussed the future of GasTerra, which was set up in order to sell Groningen gas. The shareholders considered various future scenarios and discussed them with GasTerra's Board of Management. They came to the conclusion that joint phasing out of the GasTerra organisation was inevitable, and in October 2019 asked GasTerra management to produce a phasing-out plan for the company. In consultation with the Board of Supervisory Directors, the management agreed to this request. The key elements of the phasing-out plan are a social plan for GasTerra employees, a good process with the Works Council and compliance with existing contractual obligations. The Board of Supervisory Directors has had various opportunities to contribute to the decision-making process, and will continue to monitor this issue closely in view of its importance to the GasTerra organisation, its employees and other stakeholders.

For the 2019/2020 gas year, the minister for Economic Affairs and Climate Policy has determined an operational strategy according to which NAM is required to produce 11.8 billion cubic metres from the Groningen field in an average year. This decision was taken on the basis of advice from GTS. The operational strategy is based on an average year in terms of temperatures, and was calculated by GTS using the degree/day formula. NAM is required to implement this operational strategy and GasTerra makes a significant contribution to developing the planning systems and daily operations required for this purpose and to their day-to-day implementation.

In the 2019 calendar year GasTerra had to deal with the maximum production from the Groningen field of 19.4 billion cubic metres which had been set for the 2018/2019 gas year.

The Board of Supervisory Directors discussed with management the extent to which the objectives for 2019 had been achieved and set the objectives for 2020.

In 2019 the Board of Supervisory Directors discussed the risks associated with business activities. As part of this process, the management's assessment of the set-up and operation of the internal risk management and control systems was discussed, as well as the document of representation. Attention was also paid to the management letter from the external auditor, and the social aspects relevant to GasTerra were taken into consideration too. The Board concludes that GasTerra has a robust control system that functions effectively, and that it is subject to continuous improvement.

#### **3.1.4. Staffing matters**

The Board of Supervisory Directors approves remuneration policy by issuing a Collective Labour Agreement mandate. Where necessary, the Board gets involved in updates relating to ancillary roles held by members of the Board of Management, and once a year discusses the complete overview of these ancillary roles. The overview of ancillary activities of members of the Board of Supervisory Directors is also reviewed once a year. Work was done in 2019 on setting up the social plan.

#### **3.1.5. Audit Committee**

The Board of Supervisory Directors has established an Audit Committee. This committee oversees the workings of the internal risk management and control systems, all financial affairs, relations with the external auditor and the application of information and communication technology.

At one of the meetings of the Supervisory Board, the Audit Committee reported on the activities it had undertaken. The Audit Committee met on three occasions during the reporting year. In mid-2019 Mr. A.J. Boekelman MA left the audit committee. On 16 May 2019 he was replaced by Mr. P.J. de Vries RA MA.

At the end of 2019 the composition of the Committee was as follows:

A.J. van der Linden MA (Chairperson)  
T.W. Langejan LL.M. MA  
P.W. Gerssen MA  
P.J. de Vries RA MA

### **3.1.6. Self-evaluation**

In 2018 the Board of Supervisory Directors monitored the implementation of the recommendations arising from the self-evaluation conducted in 2017. Another self-evaluation was carried out in 2019.

### **3.1.7. Contacts with employees**

At set times members of the Board of Supervisory Directors have informed employees on the company's activities in informal conversations. With a few exceptions, the Board always meets in the company's building.

Board members attended two consultative meetings between the management and the Works Council in 2018. The topics discussed included developments in GasTerra's environment and the future of GasTerra.

### **3.1.8. Financial statements**

The recommendations from the Board of Supervisory Directors to the General Meeting of Shareholders, to be held in Groningen on 13 February 2020, are as follows:

We have examined the financial statements for 2019, prepared by the Chief Executive Officer in accordance with Article 23 of the Articles of Association. We concur with these Financial Statements and recommend that:

- the net profit for 2019 – set at €36 million – be entirely appropriated for payment to the shareholders;
- the 2019 Financial Statements be adopted without alteration.

The Board of Supervisory Directors understands the difficult phase in which the organisation finds itself and wishes to express its appreciation for the way in which the Board of Management and employees devoted themselves to the objectives of the enterprise during the financial year, and for the results that were achieved. The Board wishes every success to everyone working at GasTerra in 2020.

The Board of Supervisory Directors,

B.C. Fortuyn MSc, chairperson

A.F. Gaastra LLM

J.W. van Hoogstraten MSc

R.M. de Jong MA

R.G. de Jongh MA

T.W. Langejan LLM MA

J.M.W.E. van Loon MSc

L. Zirar MA

## 3.2. Management information

The Board of Management of GasTerra consists of one Managing Director (CEO). This is Ms. A.J. Krist MA. In addition to Ms. Krist, the Board of Management also consists of a financial director (CFO), Mr. F.F. van Koten MA and a commercial director (CCO), Mr. R.E. van Rede MSc.



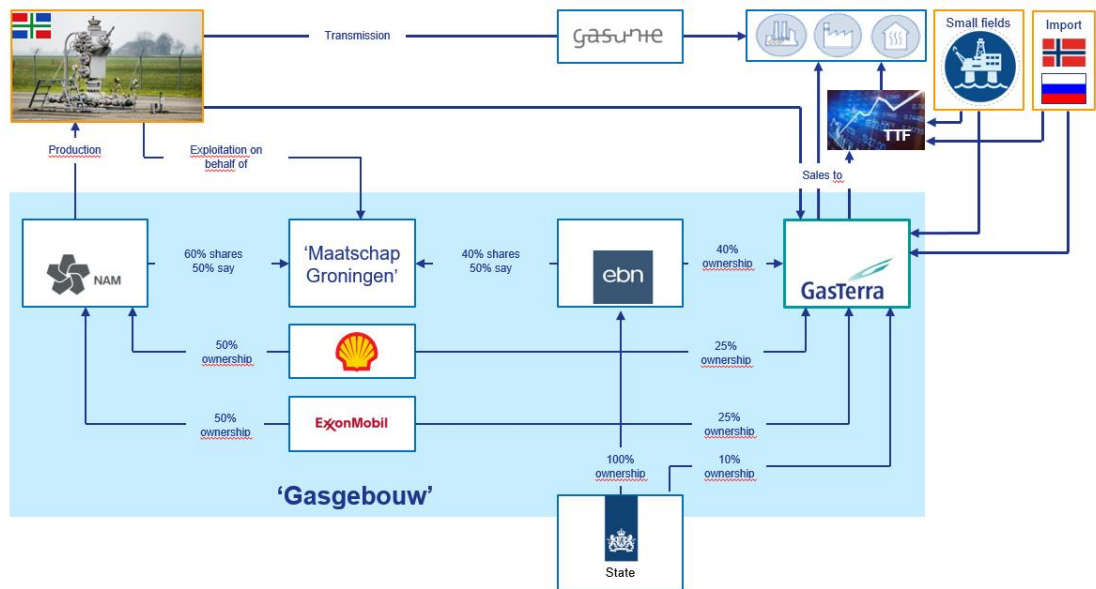
### 3.2.1.1. Structural diagram

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## 3.3. Corporate Governance

GasTerra B.V. is a private limited company with registered offices in Groningen, the Netherlands. The company was founded on 1 July 2005 when N.V. Nederlandse Gasunie was legally split into a transmission system operator and a trading company. In the process, the infrastructure (the gas pipelines) and all transmission-related activities remained with Gasunie while the newly formed GasTerra continued with all gas trading activities.

GasTerra B.V.'s authorised share capital is €180 million, split into 40,000 shares of €4,500 each. All shares have been subscribed, fully paid up and registered, and can only be transferred by unanimous approval of the General Meeting of Shareholders. The shares are held by the State (10%), EBN B.V. (40%), Shell Nederland B.V. (25%) and Esso Nederland B.V. (25%). No depositary receipts are issued.



### 3.3.1.1. 'Gasgebouw'

GasTerra is not a listed company, as a result of which the Corporate Governance Code does not apply to the organisation. However, where possible and relevant, GasTerra is guided by the principles of the code and takes the best practice provisions as a guide. In this chapter, we report on the appropriate principles of the Code.

These are to be implemented in the main when it comes to the principles and provisions included under the task and manner of working of the Board of Management. The tools that the Board of Management uses for this consist specifically of the annual activity plan, the budget, monthly and quarterly reports and the Business Risk Analysis (BRA) tailored to the organisation. The structure and operation of risk management at GasTerra are described in these documents among other things (see also the risk chapter, which contains a description of the most important risks). Risk management has been delegated to the line management. Reports are made to the Board of Management concerning implementation. The Board of Management reports at least once a year to the Audit Committee via the BRA. The external auditor assesses the compliance of this system to the extent relevant in the context of the audit of the accounts.

In formal terms the Board of Management of GasTerra consists of one Managing Director (CEO), nominated on the recommendation of the Supervisory Board and approved by the Minister of Economic Affairs and Climate Policy. The Managing Director is appointed for an indefinite period. In addition to the Managing Director, the Board of Management also consists of two further Directors/holders of a general power of attorney: a financial director and a commercial director.

The remuneration of the Managing Director is set by the Board of Supervisory Directors and, in addition to a fixed remuneration, it also has a variable component that is dependent on the financial and non-financial performance of the organisation. The Board of Supervisory Directors decides whether the Managing Director is eligible for a variable remuneration and its amount. In accordance with government policy on state holdings, the variable remuneration may not exceed 20% of the fixed salary. The amount of the Managing Director's remuneration is given in the financial statements. With regard to the Managing Director, the provisions relating to the maximum number of allowable supervisory board memberships in the Management and Supervision Act are observed.

Supervision of the Board of Management of GasTerra is exercised by the Board of Supervisory Directors. The Board of Supervisory Directors consists of eight members. One member is appointed directly by the Minister of Economic Affairs and Climate Policy, the remaining members are appointed by the Annual General Meeting of Shareholders on the recommendation of the individual shareholders. The number of Supervisory Board memberships that one person may hold is limited to ensure the proper performance of the duties. The Supervisory Board has appointed its own secretary, who is supported, where necessary, by the Company Secretary.

The Dutch Civil Code contains provisions regarding even gender distribution of the seats on the Board of Management and the Board of Supervisory Directors. This is taken into account when appointing and proposing new members of the Board of Supervisory Directors. In the year under review, the seat distribution of the Board of Supervisory Directors did not comply with this provision. The company has a positive attitude to the appointment and employment of women at all levels in the company.

The duty and manner of working of the Supervisory Board are in accordance with the Code set out in its own regulations. It is standard procedure that the Annual Report contains a report of the Supervisory Board. A (brief) profile of the members of the Supervisory Board is included in the Annual Report. The provisions relating to the supervision of the Board of Management by the Supervisory Board are effected at the regular meetings of the Supervisory Board. Furthermore, at least once a year without the Board of Management being present, the Supervisory Board discusses its own performance (and desired competencies) as well as that of its own individual members and individual members of the Board of Management.

The Articles of Association stipulate that decisions which are important to GasTerra must be approved by the Supervisory Board or the College of Delegate Supervisory Directors. The College of Delegate Supervisory Directors is a corporate body. The College is formed by members of the Supervisory Board and consists of five supervisory directors including the supervisory director who has been appointed by the Minister of Economic Affairs and Climate Policy.

The Board of Supervisory Directors has established an Audit Committee. The Audit Committee is a non-corporate body composed of four members appointed by the Supervisory Board. The Supervisory Board, or the College of Delegate Supervisory Directors, may refer matters for the consideration of the Audit Committee. Whether requested to do so or not, the Audit Committee advises the Supervisory Board or the College of Delegate Supervisory Directors on matters within its remit and prepares the decisions of the Supervisory Board in relation to those matters. The Audit Committee meets three times a year.

The duty and method of working of the Audit Committee are set out in regulations that essentially follow best practice provisions mentioned in the Code. Thus, the duties of the Audit Committee include supervision regarding the financing of the company, operating expenses and capital

expenditures in relation to the agreed budgets, the provision of financial information, the operation of the internal risk management and control systems, compliance with recommendations and observations of internal and external auditors, the role and functioning of the internal audit department, the operation of information- and communication technology and maintaining the relationship with the external auditor. Matters covered in particular by this latter topic are the independence of the auditor, remuneration and the potential provision of work that is not audit-related.

The (system of) remuneration of the Board of Supervisory Directors is approved by the Annual General Meeting of Shareholders. The total amount of remuneration of the Board is stated in the financial statements.

With regard to the powers of the shareholders, the Articles of Association stipulate that resolutions of shareholders may only be adopted by a majority of three-quarters of the votes cast. For certain resolutions, in particular the transfer of shares, suspension or dismissal of the Managing Director, amendment of the Articles of Association and dissolution of the company, unanimity is required.

As regards disclosure of information to shareholders and the potential impact on the share price, it should be noted that the 'GasTerra share' is not traded on the financial markets.

With regard to financial reporting, several times a year (at regular meetings), the Supervisory Board, the College of Delegate Supervisory Directors and the Audit Committee supervise compliance with the internal procedures relating to the preparation of the quarterly reports and the preparation and publication of the annual report.

The Annual General Meeting of Shareholders appoints the external auditor. It is standard procedure for the Audit Commission to interrogate the external auditor with regard to his declaration on the accuracy of the financial statements. Furthermore, the Board of Management and the Supervisory Board report to the Annual General Meeting of Shareholders on the independence of the external auditor and a recommendation is issued for the appointment of an external auditor. For this purpose, the Board of Management and the Supervisory Board assess the functioning of the external auditor periodically, at least once every four years. From the 2015 financial year, EY (Ernst & Young) has been GasTerra's auditor.

The external auditor has an understanding of the Internal Audits working plan, which is discussed in the Audit Committee. Findings concerning the internal audit function are included where necessary in the external auditor's management letter, which is discussed at a meeting of the Supervisory Board. The external auditor reports anything it wishes to bring to the attention of the Board of Management and the Supervisory Board in relation to its audit of the financial statements and the related audits. This gives effect to the provisions pertaining to the principle in the Code on the relationship and communication of the external auditor with the company's organs.

CSR is an integral part of the strategy at GasTerra and is therefore embedded into our day-to-day operations. GasTerra has integrated the materiality matrix and associated objectives and activities into the Business Plan which is approved by the Board of Supervisory Directors, the body with the highest degree of responsibility. Monitoring of progress is included in the regular reporting cycle. The quarterly reports are discussed by the College of Delegate Supervisory Directors and the Audit Committee.



### 3.4. Risk section

A robust risk policy is vital to GasTerra in order to allow it to achieve its aims. Risk management at strategic, tactical and operational level is part of the Management Control System. GasTerra's Management Control System is based on the COSO ERM framework that is used throughout the world.

The Board of Management and the management team jointly determine the strategic and tactical risks, and are responsible for their management. Reports on this issue are also submitted to the Board of Supervisory Directors and the Audit Committee. In addition, each process owner is responsible for the management of the operational risks associated with his business processes.

Risk management is an integral part of business activities. All employees are from time to time involved in parts of the Management Control System. They are expected to comply with the policy rules, procedures, work instructions and guidelines in force.

GasTerra has set up a risk and control register, containing a central summary of all risks and management measures for each business process on the basis of operational risk analyses.

GasTerra's risk tolerance is low. Risks are mitigated by specific measures. For all risks, an assessment is carried out to determine whether the residual risk is acceptable. GasTerra's focus lies on the effectiveness and efficiency of existing measures so that balanced measures appropriate to the level of the risk are taken.

Strategic and tactical risks are determined twice a year. The frequency of risks at operational level is determined on the basis of the risk profile of the business process concerned. In any event, each process is subjected to a risk analysis once every three years.

The management measures that cover high risks, known as key controls, are tested periodically via self-assessments carried out by the process owner. The results are reported internally and the implementation of recommendations made on the basis of the results is monitored. In addition to the self-assessments, an internal auditor periodically tests the design and operation of the management measures, also on the basis of the risk profile of the business process concerned. The operation of the internal audit function is periodically subjected to peer review by auditors of shareholders, who report back their findings to the Board of Management and the Audit Committee. Finally, GasTerra has a procedure for reporting incidents in order to promote improvements and to allow people to learn from each other.

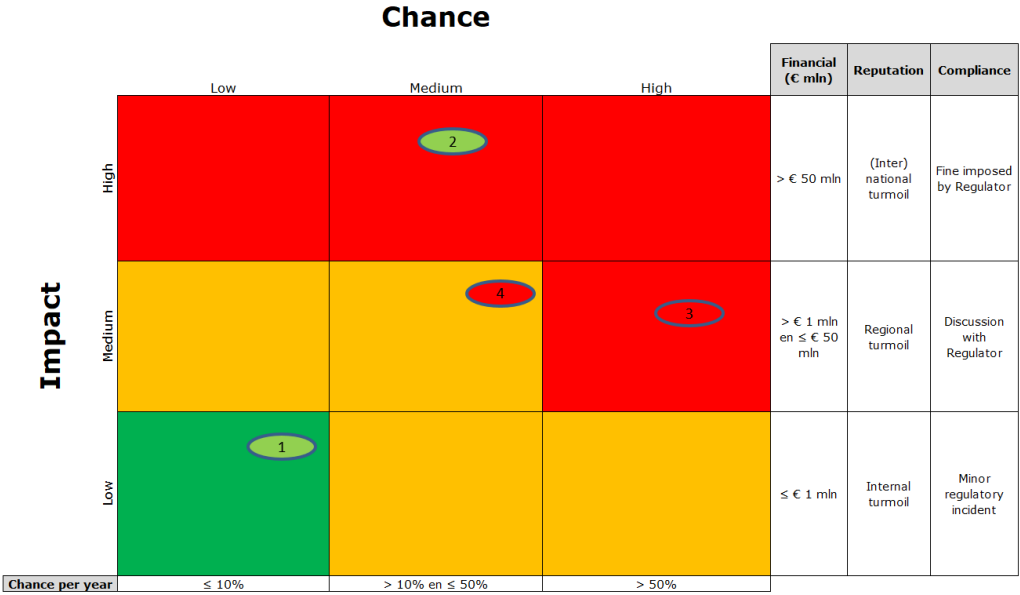
During the course of normal business operations, the company can use financial instruments that expose the company to market risk, including exchange rate risk and interest risk, and to credit risk and liquidity risk. This is described in the 'financial instruments' section of the financial statements.

#### Business risks

GasTerra's business risk analysis analyses the main strategic risks that could interfere with the achievement of targets in terms of anticipation, volume, price and costs. These targets are the way in which GasTerra fulfils its mission to maximise the value of Dutch natural gas. This mission and the related strategy and targets were once again in 2019 the basis for business operations, but in 2020 they will have to be adjusted in the light of the decision on gas extraction in Groningen and GasTerra's future phasing out.

For each risk GasTerra determines the likelihood of the risk occurring and the impact on GasTerra if it does occur. The BRA is carried out twice a year, in the autumn when the business plan is being drawn up and in the spring as a half-yearly update. We identified the main risks for 2020 at the end of 2019. As it is not yet clear how GasTerra will be phased out, the BRA for 2020 was carried out according to the principle of business as usual. This means that external effects of the announced cessation of Groningen production and the decision on phasing out are indeed taken into account, but that the consequences of the phasing out of GasTerra’s activities are not pre-empted, as a phasing-out plan is still in preparation at the moment. The risks associated with phasing out will be mapped once the phasing-out plan has been produced in the spring of 2020.

The risks for 2020 are shown in the matrix below:



3.4.1.1. Risk matrix

The main risks that could interfere with achieving targets in 2020 are explained below.

**Volume target: GasTerra aims to sell the entire volume of gas offered to GasTerra.**

Supply from small fields (nr. 1)

GasTerra buys gas from small Dutch fields in addition to Groningen gas. GasTerra is fulfilling a public duty with regard to the implementation of the Dutch government’s small fields policy and is legally obliged to buy this gas at market rates if asked to do so.

The supply from small fields has been declining for years. Most small Dutch fields are in the final stage of their production cycle. The investment climate is also difficult because of the relatively high costs of production from new fields and the decline in social support for gas extraction. Increasing competition means that GasTerra faces the risk of a further fall in supply from small fields in its portfolio, leading to lower volume from which a profit can be made.

In 2019 GasTerra offered small field producers normal market conditions for existing and new contracts in accordance with the Gas Act and its own company policy. GasTerra also informs parties concerned as to the expected effects of current market conditions on supply from small fields. The government has stated that in the phasing-out period of L-gas demand, preference will be given to production from small gas fields over gas imports.

In order to maintain the economic prospects for the offshore gas sector, a proposal is currently before the Council of State for approval relating to increasing the tax break for the detection and extraction of gas from the North Sea from 25 to 40%.

**Anticipation target: GasTerra anticipates a changing environment and listens to its stakeholders so that opportunities and threats can be identified and GasTerra can continue to fulfil its mission of maximising value in the future.**

#### Unclear business strategy and mission (nr. 2)

GasTerra's future prospects have been uncertain and unclear for a number of years because of the decision to stop Groningen gas extraction as quickly as possible. The post-2022 period is particularly important because from that point on the Groningen supply in our portfolio will decline sharply as a result of the construction of the additional nitrogen plant. As a result of the decision relating to gas extraction in Groningen, there is the risk that in the meantime there will be no clear business strategy and mission, and that as a result innovation, personal development, efficiency and effectiveness will come to a halt.

One of the key issues for 2019 was to gain clarity as to the future prospects of the organisation. In order to allow a properly considered decision on this to be taken, an analysis was carried out into the roles and value of GasTerra. This analysis was presented to the shareholders.

The shareholders have discussed the various future scenarios for GasTerra. It was finally decided that GasTerra will be gradually phased out within a foreseeable time. They have therefore asked the Board of Management to produce a phasing-out plan, which in their view needs to be shaped with the greatest care and with consideration being given to the interests of employees. This produces greater clarity as to the future prospects of GasTerra, but the impact on innovation, personal development, efficiency and effectiveness remains just as great in 2020. In addition, the current mission and strategy are no longer appropriate, and will be altered in the light of the future phasing-out plan in 2020.

#### Less motivated staff (nr. 3) and inability to retain skilled staff (nr. 4)

GasTerra will be phased out in the years to come. One of the principles for the phasing-out plan that is to be drawn up is the high level of quality that stakeholders are used to receiving from us. Employee skills are critical to this. The increased clarity as to the future of GasTerra means that staff are going to leave the company, leading to the risk of a mismatch between the current staff skills and the skills that are desirable.

Furthermore, the decision to stop Groningen gas extraction and phase out GasTerra means that there is a risk of employees being less proud of their work and less motivated.

The new HR policy focusing on employee development was implemented in 2019. At the same time considerable attention was paid to informing employees about developments relating to the future of GasTerra.

The impact of both risks for 2020 is set at a higher level than the year before. In order to anticipate this a strategic staff plan will be produced. This plan must ensure that the skills required are present in the company so that business continuity is not endangered.

It is also important to facilitate employee departure. A social plan is being drawn up to achieve this, containing a compensation and support package. The basic principle is to help employees move straight into another job.

## 4. Financial statements

The composition of the 2019 financial statements is as follows:

- Balance sheet as of 31 December (before profit appropriation)
- Income statement
- Cashflow statement
- Explanatory notes to the financial statements
- Other information

## Balance sheet as at 31 December (before profit appropriation)

*in millions of euros*

<b>Assets</b>	Note	<b>2019</b>	2018
Fixed assets			
- intangible fixed assets	(1)	<b>4.2</b>	6.4
- tangible fixed assets	(2)	<b>2.5</b>	2.8
Current assets			
- stocks	(3)	<b>44.5</b>	112.0
- receivables	(4)	<b>1,119.5</b>	1,666.2
- cash and cash equivalents	(5)	<b>160.9</b>	172.6
Total		<b>1,331.6</b>	1,960.0
		=====	=====
<b>Liabilities and Equity</b>			
Shareholder's equity			
- paid in share capital	(6)	<b>180.0</b>	180.0
- result for the year	(6)	<b>36.0</b>	36.0
Long term provisions	(7)	<b>32.6</b>	0.0
Current liabilities	(8)	<b>1,083.0</b>	1,744.0
Total		<b>1,331.6</b>	1,960.0
		=====	=====

## Income Statement

*in millions of euros*

	Note	2019	2018
Net turnover	(9)	<b>8,832.0</b>	11,153.1
Cost of sales	(10)	<b>-8,704.5</b>	-11,053.5
Gross margin		<b>127.5</b>	99.6
General management expenses	(11)	<b>-77.7</b>	-50.5
Operating profit		<b>49.8</b>	49.1
Financial income	(12)	<b>-1.2</b>	-1.2
Financial Expenses	(12)	<b>-0.6</b>	0.1
Net financial income and expenses		<b>-1.8</b>	-1.1
Profit before income taxes		<b>48.0</b>	48.0
Income tax expenses	(13)	<b>-12.0</b>	-12.0
Net income		<b>36.0</b>	36.0
		=====	=====

## Cash flow statement

in millions of euros

	2019	2018
<i>Cash flow from operating activities</i>		
Operating profit	<b>49.8</b>	49.1
Adjustments for:		
- depreciation and impairment	<b>4.5</b>	5.3
- change in stocks	<b>67.5</b>	-112.0
- change in receivables	<b>546.7</b>	12.0
- change in long term provisions	<b>32.6</b>	0.0
- change in current liabilities	<b>-661.0</b>	157.6
Cash flow from operations	<b>40.1</b>	112.0
Financial income (received)	<b>-1.2</b>	-1.2
Financial expenses (paid)	<b>-0.6</b>	0.1
Income taxes paid	<b>-12.0</b>	-12.0
	<b>-13.8</b>	-13.1
<i>Cash flow from operating activities</i>	<b>26.3</b>	98.9
<i>Cash flow from investing activities</i>		
Investments in fixed assets	<b>-2.0</b>	-1.4
<i>Cash flow from investing activities</i>	<b>-2.0</b>	-1.4
<i>Cash flow from financing activities</i>		
Dividends paid	<b>-36.0</b>	-36.0
<i>Cash flow from financing activities</i>	<b>-36.0</b>	-36.0
<i>Change in cash and cash equivalents</i>	<b>-11.7</b>	61.5
	=====	=====
Cash and cash equivalents at year end	<b>160.9</b>	172.6
Cash and cash equivalents at preceding year end	<b>172.6</b>	111.1
<i>Change in cash and cash equivalents</i>	<b>-11.7</b>	61.5
	=====	=====

## **Explanatory notes to the financial statements**

### **General information**

GasTerra B.V., Groningen.

Chamber of Commerce number 02089290

### **1. ACCOUNTING PRINCIPLES**

#### **General**

GasTerra B.V is a gas trading company that operates internationally and is based at Stationsweg 1, Groningen. The company (and its legal predecessor) have over 50 years' experience and enjoys a good market position. GasTerra serves part of the Dutch and European gas market.

The financial statements have been prepared in accordance with the statutory provisions of Title 9, Book 2 of the Dutch Civil Code (BW). Unless otherwise specified, the financial statements are prepared based on historical cost.

An asset is included in the balance sheet when it is probable that future economic benefits will flow to the company and its value can be reliably determined. A liability is included in the balance sheet when it is probable that settlement thereof will entail an outflow of resources that embody economic benefits and the magnitude of the amount thereof can be reliably determined.

Income is included in the income statement when an increase in the economic potential related to an increase in an asset or a decrease in a liability has taken place, the magnitude of which can be reliably determined. Expenses are accounted for when a decrease in the economic potential related to a decrease in an asset or an increase in a liability has taken place, the magnitude of which can be reliably determined.

If a transaction results in all or almost all of the future economic benefits and all or almost all of the risks related to an asset or liability being transferred to a third party, the asset or liability is no longer included in the balance sheet. Furthermore, assets and liabilities are not included in the balance sheet from the time at which the requirements of probability of future economic benefits and/or reliability of the determination of the value are no longer met.

Income is allocated to the period to which it relates. Income is recognized when all significant risks relating to the delivery pass to the counterparty. Costs are determined in the light of the valuation principles referred to above and allocated to the reporting year to which they relate. (Foreseeable) liabilities and possible losses arising before the end of the financial year are taken into account to the extent that they are known before the preparation of the financial statements and the conditions for including provisions are met.

(Positive and negative) interest results relating to the liquid assets invested are recognized under financial income, as well as the interest income for correction invoices gas purchase and gas sales.

(Positive and negative) interest results relating to the liquid assets borrowed are recognized under financial expenses, as well as the interest income for correction invoices gas purchase and gas sales.

#### **Continuity**

At the General Meeting of Shareholders dated 4 October 2019, the shareholders decided to request management to prepare a reduction plan for the organization. Based on an analysis of the long-term contracts and taking into account the agreements within the "Gasgebouw", these financial statements have been prepared on a going concern basis.



## **Estimates and uncertainties**

In preparing these financial statements, assessments, estimates and assumptions have been made that affect the amounts accounted for. In particular, this concerns the net sales and cost of sales (including transport costs). The assessments, estimates and assumptions made are based on market data, knowledge and experience, and other factors that are considered reasonable under the given circumstances. The actual results may differ from these estimates. The estimates and underlying assumptions are continually assessed. Revisions of estimates are recognized in the period in which the estimate is revised and in any future periods on which the revision has an impact. Potential special features regarding estimates and assessments, if significant, are included in the notes to the balance sheet and the income statement. As a consequence of the agreement between the shareholders of GasTerra, as explained under the off-balance sheet assets and liabilities, the deviations from these estimates do not affect the result.

## **Transactions in foreign currencies**

Transactions in foreign currencies are converted at the exchange rate applying on the transaction date.

Cash and cash equivalents, trade receivables and current liabilities in foreign currency are converted at the exchange rate applying on the date of the balance sheet.

Foreign exchange gains and losses on both gas exports and gas imports are presented in the income statement as cost of sales. Other exchange rate results are accounted for under financial income and expenses.

## **Fixed assets**

### *Intangible fixed assets*

Intangible fixed assets are valued at the historical purchase price or production cost, less straight-line depreciation over the economic life of the assets.

Intangible fixed assets that have not been completed as at the balance sheet date are accounted for under the category intangible fixed assets under construction. After being put into use, the relevant asset will be classified under the category intangible fixed assets.

The depreciation period used for intangible fixed assets is 5 years. Intangible fixed assets under construction are not depreciated.

### *Tangible fixed assets*

Tangible fixed assets are valued at the historical purchase price or production cost, less straight-line depreciation over the economic life of the assets.

Tangible fixed assets that have not been completed as at the balance sheet date are accounted for under the category tangible fixed assets under construction. After being put into use, the relevant asset will be classified under the category tangible fixed assets.

The depreciation periods used for tangible fixed assets are 5 or 10 years. Tangible fixed assets under construction are not depreciated.

## **Impairment**

Once a year on the date of the balance sheet an assessment is performed to ascertain whether there are any indications that the book value of a tangible or intangible fixed asset is higher than the recoverable value (the higher of the value in use or the realizable value). If that is the case, an analysis is carried out to identify any impairment that may be necessary.

If the recoverable value of an asset is below the book value, the book value is written down to the recoverable value. Impairment is fully or partly reversed in the event of a change in the estimate that is relevant to determining the recoverable value. Impairments are recorded under general management expenses.

## **Current assets**

### *Stocks*

Stocks of natural gas are valued at cost price according to the FIFO (first-in first-out) principle or lower realizable value, being the TTF Price assessment 31 December 2019 Heren for Q1 2020.

### *Receivables*

At first receivables are valued at their actual value and thereafter at the amortized cost taking collectability risks into account. Trade receivables also include sales that have not yet been invoiced.

## **Pensions**

Together with N.V. Nederlandse Gasunie (Dutch natural gas infrastructure and transmission company), GasTerra is affiliated with the Stichting Pensioenfonds Gasunie (Gasunie Pension Fund Foundation). GasTerra's employees have a pension scheme administered here.

The pension scheme is classified as a defined benefit pension under the Pensions Act. Premiums are not determined on the basis of cover.

The coverage ratio of Stichting Pensioenfonds Gasunie was 113% at year-end 2019. GasTerra has no additional payment obligations.

The most important agreement in the pension scheme is that the employer's premium is 24.6% of maximum pensionable annual salary. The chance of GasTerra being obliged to pay a higher contribution is practically nil.

The maximum accrual of pension rights in a conditionally indexed career average system is 1.875% per annum over the average pensionable earnings and the maximum pensionable salary.

Starting point is that pension charges to be processed in the reporting period are equal to the pension contributions owed to the pension fund during the same period. To the extent that the contributions payable on the balance sheet date have not yet been met, a liability is included for this. If the contributions already paid at the balance sheet date exceed the contributions owed, an accrued asset item is recognized to the extent that there will be repayment by the fund or a set-off against contributions owed in the future.

## **Long term provisions**

Provisions are created for legally enforceable or actual obligations that exist on the balance sheet date, whereby it is probable that an outflow of resources is necessary and the extent of which can be reliably estimated.

Provisions are valued using the best estimates of the amounts required to settle the obligations on the balance sheet date.

A nominal provision is formed for an announced restructuring, when it contains a detailed plan. The costs of this provision is estimated on the basis of the number of possible redundant employees and the associated redundancy costs per employee based on the number of years of service and salary scale.

## **Current liabilities**

Current liabilities are valued at the amortized cost, whereby the income and expenditure arising from amortization are recognized in the income statement using the effective interest method. The initial measurement is effected at fair value whereby the transaction costs that are directly attributable to the acquisition are included in the measurement. This relates to liabilities with a term of no more than one year.

Amounts payable also include purchases that have not yet been invoiced. Amounts received from customers due to a decreased purchase of gas under 'take-or-pay' agreements are recorded under current liabilities as an obligation to deliver. Invoices paid by customers in advance are also included under current liabilities. The obligation to deliver arising from the receipt of gas in the storage service is also recorded under current liabilities.

## Financial instruments

Financial instruments comprise receivables, cash and cash equivalents and current liabilities.

Financial instruments also include derivative financial instruments (derivatives) embedded in contracts. The company separates embedded derivatives from the host contract and accounts for these separately if:

- the host contract's economic characteristics and risks and the embedded derivative are not closely related; and
- a separate instrument with the same terms and conditions as the derivative embedded in the contract would meet the definition of a derivative; and
- the combined instrument is not measured at fair value in the income statement, including value changes.

Financial instruments (derivatives) embedded in contracts that are not separated from the host contract, because the above-mentioned conditions are not met, are recognized in accordance with the host contract. Derivative financial instruments that are separated from the host contract are valued at cost price or lower market value, whichever is the lower.

GasTerra concludes gas purchase contracts and gas sale contracts as part of its business operations. These contracts are concluded for the actual physical delivery and receipt of gas in accordance with the company's expected purchases, sales levels or usage requirements. For this reason, they fall outside the scope of RJ 290 (Dutch Accounting Standards).

## Pricing of gas sales and gas purchases

Pricing of natural gas for both the sales and purchasing sides is influenced to a significant degree by developments in the prices of natural gas as well as the prices of other energy carriers.

GasTerra's shareholders have concluded an agreement relating to the after-tax profits to be made by GasTerra. This agreement stipulates that the price of the natural gas from Groningen sold by the Nederlandse Aardolie Maatschappij B.V. (NAM) to GasTerra during the year has been set such that GasTerra will retain the after-tax profits determined for that year by the shareholders.

## Net turnover

Net turnover is divided into gas sales and other net turnover.

Gas sales represent the income from the supply of gas and the income from the corresponding services provided, after deducting the tax assessed on the turnover. A distinction is made between services related to making transport capacity and flexibility available and actual usage. These services are considered to have been provided if the service was made available to the client during the period agreed.

Other net turnover is represented primarily by the income from the delivery of services to third parties. This income results primarily from flexibility services.

The income is recorded during the reporting period in which the gas was delivered and the services were provided.

## Cost of sales

In the main, the cost of sales represents the cost of the purchase of gas and the associated services, the transport costs and the costs related to underground gas storage.

## Operating expenses

The expenses are determined on a historical basis, taking into account the principles for valuation set out above, and are accounted for in the period to which they relate. Losses are recorded in the reporting period in which provisions for them may be made. GasTerra has no specific sales costs.

## Net financial income and expenses

This item includes the income and expenses related to deposits and financing.

**Corporate tax**

The tax on result is calculated based on the result before tax in the income statement, in due observance of the valid tax-related provisions and rates.

**Cash flow statement**

This report provides a statement of the cash flows generated. The statement of cash flow is drawn up on the basis of the indirect method based on the operating results in the income statement.

## 2. Notes to the balance sheet

### Intangible fixed assets (1)

<i>in millions of euros</i>	<b>Intangible fixed assets</b>	<b>Intangible fixed assets under construction</b>	<b>Totaal 2019</b>
<b>Balance as at 1 January:</b>			
Cost	57.6	1.4	59.0
Cumulative depreciations and impairments	-52.6	0.0	-52.6
Net book value	5.0	1.4	6.4
Change in the net book value			
Capital expenditure	0.9	0.5	1.4
Depreciation	-3.5	0.0	-3.5
Disposal	-0.1	0.0	-0.1
Net book value as at 31 december	2.3	1.9	4.2
	===	===	===
<b>Balance as at 31 december</b>			
Cost	56.8	1.9	58.7
Cumulative depreciations and impairments	-54.5	0.0	-54.5
Net book value	2.3	1.9	4.2
	===	===	===

The intangible fixed assets primarily consists of capitalised costs for software developed in-house to support operational processes.

### Tangible fixed assets (2)

<i>in millions of euros</i>	<b>Tangible fixed assets</b>	<b>Tangible fixed assets under construction</b>	<b>Totaal 2019</b>
<b>Balance as at 1 january:</b>			
Cost	9.3	0.1	9.4
Cumulative depreciations and impairments	-6.6	0.0	-6.6
Net book value	2.7	0.1	2.8
Change in the net book value			
Capital expenditure	0.0	0.6	0.6
Depreciation	-0.9	0.0	-0.9
Disposal	0.0	0.0	0.0
Net book value as at 31 december	1.8	0.7	2.5
	===	===	===
<b>Balance as at 31 december</b>			
Cost	8.8	0.7	9.5
Cumulative depreciations and impairments	-7.0	0.0	-7.0
Net book value	1.8	0.7	2.5
	===	===	===

The tangible fixed assets primarily consists of machinery and equipment and computer supplies.

The tangible fixed assets are classified as other fixed business assets.

<b>Stocks (3)</b>	<b>31 dec. 2019</b>	31 dec. 2018
<i>in millions of euros</i>		
Stock of natural gas	<b>44.5</b>	112.0
	<hr/>	<hr/>
Total	<b>44.5</b>	112.0
	=====	=====

As of 31 December 2019 € 28.8 million was written off from the inventory and recognized in the income statement.

<b>Receivables (4)</b>	<b>31 dec. 2019</b>	31 dec. 2018
<i>in millions of euros</i>		
Trade receivables	<b>1,118.8</b>	1,585.3
Taxes	<b>0.0</b>	0.0
Receivables from shareholder	<b>0.0</b>	32.0
Other receivables	<b>0.7</b>	48.9
	<hr/>	<hr/>
Total	<b>1,119.5</b>	1,666.2
	=====	=====

None of the receivables have a term longer than one year.

A provision for bad debts to the amount of € 1.1 million (2018: € 1.0 million) is reserved as at the balance sheet date.

<b>Cash and cash equivalents (5)</b>	<b>31 dec. 2019</b>	31 dec. 2018
<i>in millions of euros</i>		
Deposits	<b>160.7</b>	172.3
Other cash and cash equivalents	<b>0.2</b>	0.3
	<hr/>	<hr/>
Total	<b>160.9</b>	172.6
	=====	=====

### **Shareholder's equity (6)**

#### *Issued capital*

The authorised and issued capital in 2018 and 2019 amounts to € 180 million and is divided into 40,000 shares, each with a nominal value of € 4,500. The issued capital, that is fully paid up, is divided as follows:

EBN B.V.	40%
Esso Nederland B.V.	25%
Shell Nederland B.V.	25%
State of the Netherlands	10%

#### *Unappropriated profit*

##### *in millions of euros*

Balance at 1 January 2019	36.0
Appropriation of the results for the financial year 2018 in accordance with the resolution of the General Meeting of Shareholders	-/-36.0
Unappropriated profit for the financial year 2019	36.0
	<hr/>
Balance at 31 December 2019	36.0

## Proposal for profit appropriation

It is proposed by the board that the full year result 2019 of € 36.0 million will be paid to shareholders as dividend.

### Provisions (long term) (7)

	31 dec. 2018	Addition	Release	Withdrawal	31 dec. 2019
<i>in millions of euros</i>					
Other provisions	0.0	32.6	0.0	0.0	<b>32.6</b>
Total	<u>0.0</u>	<u>32.6</u>	<u>0.0</u>	<u>0.0</u>	<u><b>32.6</b></u>
	=====	=====	=====	=====	=====

The other provisions relate to a reorganization provision that was formed in response to the social plan agreed with the union on 23 December 2019. This social plan was drawn up in response to the request from shareholders in 2019 for a joint reduction plan to be drawn up.

### Current liabilities (8)

	31 dec. 2019	31 dec. 2018
<i>in millions of euros</i>		
Amounts payable - for gas purchases	<b>933.1</b>	1,547.7
Amounts payable - to shareholders	<b>63.8</b>	117.5
Other amounts payable	<b>8.4</b>	7.4
Taxation and social security contributions	<b>4.6</b>	6.0
Amounts received in advance	<b>73.1</b>	64.9
Accrued and deferred income	<b>0.0</b>	0.5
Total	<u><b>1,083.0</b></u>	<u>1,744.0</u>
	=====	=====

## Financial instruments

### General

The company uses financial instruments during its normal business operations that expose the company to market risks, including currency risk and interest rate risk and also to credit risk and liquidity risk.

No forward currency contracts or gas price swaps were entered into in 2019 (or 2018).

### Credit risk

The credit risk is limited to receivables and cash and cash equivalents and consists of the loss that would be generated if customers or counterparties were to remain in default and fail to fulfil their contractual obligations. The company has drawn up guidelines with which customers or counterparties must comply. These guidelines limit the risk associated with possible credit concentrations and market risks. There was no particular credit risk as a result of credit concentrations at the end of 2019. If customers or counterparties fail to comply with these guidelines, they will be asked to furnish additional security such as bank guarantees. This prevents the company from running any major credit risks in respect of any individual customer or counterparty. Long-term relations have been built with the majority of customers and counterparties. They nearly fulfilled their payment obligations in 2019.

### Interest rate risk

The interest rate risk is limited to potential changes in the market value of funds withdrawn and issued. It is company policy not to use derivative financial instruments to manage fluctuations in interest rates (on an interim basis or otherwise). Given the short-term nature of deposits, the interest rate risk for the year 2019 did not exceed € 0.1 million (2018: € 0.1 million).

#### *Liquidity risk*

The company monitors its liquidity position through liquidity forecasts. The management ensures that the company always has sufficient liquidity available via its credit facilities to meet its commitments.

#### *Foreign exchange rate risk*

GasTerra has a very low level of foreign exchange rate risk, and consequently this is not covered. All foreign exchange transactions take place on the spot market.

#### *Market value*

The market value of the majority of the financial instruments recorded in the balance sheet, including receivables, cash and cash equivalents and current liabilities, is approximate to the book value of those items as a result of the short maturities.

## **Off-balance sheet assets and liabilities**

#### *Procurement, supply and transport commitments*

GasTerra has long-term procurement, supply and transport commitments pursuant to gas purchase, gas sales, gas storage and transport contracts. The gas purchase and sales prices depend to a large degree on the future prices of natural gas, as well as the future market prices of other energy carriers.

In addition to this, GasTerra has entered into long-term commitments for office rental and ICT services. The financial consequences of this are of minor significance for assessing the financial position at the end of the financial year.

€ 86.0 million in bank guarantees (2018: € 1,246.4 million) have been issued to the benefit of GasTerra by third parties. GasTerra has not issued any bank guarantees to the benefit of third parties (2018: € 0.0 million).

The supply commitments are covered by long-term purchase contracts, including the contract for low-calorific Groningen gas. The temporary difference between delivery obligations and the import and domestic procurement obligations, are bought or sold by GasTerra mainly short-term, on liquid trading points.

The shareholders of GasTerra have concluded an agreement relating to the profit after taxes to be made by GasTerra. This agreement stipulates that the price of the natural gas from Groningen sold by the Nederlandse Aardolie Maatschappij B.V. (NAM) to GasTerra during the year has been set such that GasTerra will retain the profit of €36 million determined for that year by the shareholders. As a result of the implementation of the above agreement, no notes are given on the valuation of the individual gas purchase and sales contracts.

The commitments and rights arising from long-term gas purchase, sales and transport contracts are not shown on the balance sheet.

Long-term gas purchase and sales agreements usually contain renegotiation clauses enabling the parties to review the contract conditions during the term of the agreement, subject to certain conditions. GasTerra regularly renegotiates the long-term gas sales and purchase contracts with the counterparties in question (see Annual Report section 2.2). It is not possible to arrive at a reliable estimate of the outcomes of these renegotiations or associated arbitration proceedings.



### 3. Notes to the income statement

<b>Net turnover (9)</b>	<b>2019</b>	2018
<i>in millions of euros</i>		
Gas sales	<b>8,783.3</b>	11,105.4
Other net turnover	<b>48.7</b>	47.7
Total	<b>8,832.0</b>	11,153.1
	=====	=====

The following is a regional overview of gas sales:

	<b>2019</b>	2018
The Netherlands	<b>5,552.1</b>	6,345.9
Rest of Europe	<b>3,231.2</b>	4,759.5
Total	<b>8,783.3</b>	11,105.4
	=====	=====

The volumes were 7 percent lower in 2019 than in 2018, decreasing from 55.5 billion m<sup>3</sup> to 51.5 billion m<sup>3</sup>. The average selling price is 17.0 cent/m<sup>3</sup> (20.0 cent/m<sup>3</sup> in 2018) <sup>4</sup>.

<b>Cost of sales (10)</b>	<b>2019</b>	2018
<i>in millions of euros</i>		
Gas purchases	<b>8,433.5</b>	10,779.3
Transport cost	<b>271.0</b>	274.2
Total	<b>8,704.5</b>	11,053.5
	=====	=====

The average purchase price is 16.4 cent/m<sup>3</sup> (19.4 cent/m<sup>3</sup> in 2018). The gas purchase costs also include the costs of underground gas storage.

The movements in foreign exchange rates recognized in the income statement under the cost of sales amount to € 0.0 million exchange loss (2018: € 0.0 million exchange loss).

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<sup>4</sup> by m<sup>3</sup> is meant gas with a calorific value of 35.16912 MJ

<b>General management expenses (11)</b>	<b>2019</b>	2018
<i>in millions of euros</i>		
Wages and salaries	<b>14.2</b>	14.1
Provision for restructuring	<b>32.6</b>	0.0
Social security expenses	<b>1.5</b>	1.5
Pension expenses	<b>3.1</b>	3.5
Costs of work subcontracted and other external expenses	<b>13.1</b>	17.9
Depreciation and impairments	<b>4.5</b>	5.3
Other	<b>8.7</b>	8.2
Total	<b>77.7</b>	50.5
	=====	=====

The increase in general management expenses is caused by the addition to the restructuring provision made in 2019.

<b>Net financial income and expenses (12)</b>	<b>2019</b>	2018
<i>in millions of euros</i>		
Interest income	<b>-1.2</b>	-1.2
Financial income	<b>-1.2</b>	-1.2
Interest charges	<b>-0.6</b>	0.1
Financing costs	-	-
Financial expenses	<b>-0.6</b>	0.1
Net position	<b>-1.8</b>	-1.1
	=====	=====

### **Tax on profit from ordinary activities (13)**

The effective tax rate for 2019 was 25.0% (2018: 25.0%).

### **Related parties transactions**

Transactions with related parties take place when GasTerra conducts transactions with its directors, its senior executives, its direct shareholders or the direct shareholders of related parties.

Transactions between GasTerra and the related parties are processed based on normal market terms and conditions.

For the natural gas from the Groningen Field purchased during the year by GasTerra, the pricing structure resulting in the profit determined by the shareholders applies.

### **Subsequent events**

There are no subsequent events with significant financial consequences for GasTerra.

## Number of employees

At year-end 2019, the number of employees in full-time equivalent positions was 131.2 (2018: 141.4). The average number of employees in full-time equivalent positions during the financial year was 131.5 (2018: 147.7).

## Auditor's fees

During the financial year, the following fees were charged to the company by EY, as referred to in Section 2:382a of the Dutch Civil Code (BW). The basis is the total fee amount for examining the financial statements for the financial year to which the financial statement relate (RJ 390.301a).

Auditor's fees <i>in euros</i>	Ernst & Young Accountants LLP		Ernst & Young Accountants LLP	
		2019		2018
Audit of the financial statements	€	242,000	€	191,000
Other audit engagements	€	48,000	€	40,000
	€	290,000	€	231,000
		=====		=====

## Remuneration of Directors and current and former Supervisory Directors

The remuneration policy of GasTerra is aimed at motivating and retaining Directors of the company who are capable of heading a large enterprise and remunerating them based on their performance. The remuneration policy with regard to the company's Supervisory Directors is one of restraint.

### Directors of the company

The remuneration for the CEO of the company, A.J. Krist, is as follows:

Remuneration of directors <i>in euros</i>	2019		2018	
Periodic remuneration (excluding social security expenses)	€	332,842	€	323,160
Employer's social security expenses	€	10,609	€	9,885
Periodic remuneration (including employer's social security expenses)	€	343,451	€	333,045
Variable remuneration*	€	47,557	€	43,456
Employer's pension premium contribution	€	29,395	€	28,679
Salary	€	420,403	€	405,180
		=====		=====

\*Aforementioned variable remuneration is based on achieving the agreed objectives during the year under review (A.J. Krist).

GasTerra holds an insurance policy that offers Directors and Supervisory Directors coverage in the event of their liability.

### Supervisory directors of the company

Total remuneration for the current and former members of the Board of Supervisory Directors for the financial year 2019 amounts to € 58,084 (2018: € 56,647).

## **Board of Management**

Ms. A.J. Krist MA, Chief Executive Officer

## **Board of Supervisory Directors**

Mr. B.C. Fortuyn MSc

Mr. A.F. Gaastra LLM

Mr. J.W. van Hoogstraten MSc

Mr. R.M. de Jong MA

Mr. R.G. de Jongh MA

Mr. T.W. Langejan LLM MA

Ms. J.M.W.E. van Loon MSc

Mr. L. Zirar MA

Groningen, 13 February 2020

## **5. Other information**

### **5.1. Statutory provisions regarding profit appropriation**

Pursuant to Article 24 of the articles of association of GasTerra, the profit is at the disposal of the General Meeting of Shareholders, with consideration to the provision that such parts of the available profit will be reserved as specified by the Supervisory Board.

## 6. Appendices / other information

### 6.1. About this report

The objective of this Annual Report is to inform stakeholders (interested parties) about GasTerra's vision and activities.

#### 6.1.1. Integrated report

The financial, operational and social information is incorporated into an integrated report.

- Financial responsibility is in accordance with provisions of Part 9 of Book 2 of the Dutch Civil Code.
- Non-financial responsibility is in accordance with the guidelines of the Global Reporting Initiative (GRI) (Standards, Core Level).

In addition to the financial statements and the combined audit declaration, the 2019 GasTerra Annual Report contains other information, i.e.:

- The GasTerra Management Report, in the foreword and in chapters 1, 2, 3 and 6;
- The Report of the Board of Supervisory Directors, in chapter 3;
- The other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

#### 6.1.2. Scope

The scope of the report is GasTerra B.V., which has its registered office in Groningen. This annual report covers the 2019 calendar year. The report for the 2018 calendar year was published on 14 February 2019.

#### 6.1.3. Transparency

We consider it important to be transparent about our activities. Therefore, as an unlisted company we try as far as possible to apply the best practices from the Corporate Governance Code and participate in the Transparency Benchmark scheme of the Ministry of Economic Affairs and Climate Policy. In 2019 the criteria of the Transparency Benchmark were updated to pay more attention to chain transparency and the Sustainable Development Goals. GasTerra's 2018 annual report scored 64 points out of a maximum possible of 100 points. This means that within our sector we are in the top ten, and within the whole group of companies assessed we are in the best ten per cent.

#### 6.1.4. Determination of content (materiality)

The material issues largely determine the content and limits of our reporting. The material issues are determined in part by the outcomes of the stakeholder dialogue. GasTerra has decided to conduct a stakeholder dialogue once a year, alternating between an in-depth version one year and a scaled-down version the following year. For the in-depth stakeholder dialogue, all participants are asked for their views on all issues relevant to GasTerra. The form of the dialogue can vary according to year, issue and stakeholder. In the scaled-down version, we focus on existing or new issues and/or stakeholders and retest the results of the previous stakeholder dialogue.

We have divided our stakeholders into nine groups: clients, employees, shareholders, producers and transport, National government and market regulators, knowledge and educational institutions, sectoral organisations, social organisations and regional groups.

The in-depth version of the stakeholder dialogue was conducted in 2017, followed by testing the results in 2018. We consulted clients, employees, regional groups and sectoral organisations to ascertain whether the 2017 results were still representative. In the light of the decision by the Minister for Economic Affairs and Climate Policy to further reduce gas extraction in Groningen, we also discussed how far stakeholders believe that GasTerra should continue to play a role in the current and future gas market. This led to three different visions firstly, GasTerra’s possible share in the future traditional gas market and secondly in the market for renewable (‘green’) gases, which is still in the very early stages of development. There are also groups that conflate both visions, taking the view that GasTerra should continue with its current activities but also focus strongly on helping to facilitate the energy transition.

In 2019 we once again conducted the in-depth version of the stakeholder dialogue, using a survey and in-depth interviews to determine the interest of the various stakeholders in the topics selected from an economic, ecological or social impact perspective. This dialogue was carried out between the end of June and the beginning of October 2019, i.e. before the decision to eventually dissolve GasTerra. Although it therefore starts in principle on a ‘business as usual’ basis, the questions were formulated taking account of a possible phasing-out scenario. The outcomes of the stakeholder dialogue are therefore taken into account in the formulation of the phasing-out plan.

The question of what role GasTerra should play in the gas market was put to all stakeholder groups. Sub-issues were defined on the basis of the discussions in 2018: future contractual relationships, the ending of gas extraction in Groningen, maintaining a ‘quality-free’ TTF, concluding new import contracts and the extraction of natural gas from small Dutch fields. The (possible) role of GasTerra in the future renewable gas market was part of the sustainable energy provision issue.

The following (main) issues were addressed during the stakeholder dialogue:

<b>Issues raised in the stakeholder dialogue</b>
Contractual obligation <i>The extent to which GasTerra complies with its current contractual obligations.</i>
Economic performance <i>The extent to which GasTerra contributes to the financial result of its shareholders and society.</i>
Chain management <i>The extent to which GasTerra is aware of its role in the chain. The issues raised in this context include earthquake problems, environmental damage and methane emissions.</i>
Sustainable deployability <i>The extent to which GasTerra creates a good working environment, with a suitable culture and structure, and encourages employees to develop.</i>
Sustainable energy supply <i>The extent to which GasTerra contributes to the sustainable energy supply. The issues raised in this context include green gas, hydrogen, joint ventures and the development and introduction of new energy technologies</i>
Compliance with guidelines and frameworks <i>The extent to which GasTerra chooses to comply with voluntary guidelines and frameworks such as the Sustainable Development Goals and the GRI guidelines</i>
Internal footprint <i>The extent to which GasTerra minimises its own environmental footprint</i>
Knowledge <i>The extent to which GasTerra acquires, develops and shares energy-related knowledge. This consists of initiating and stimulating research in order to acquire knowledge and participation in sectoral organisations.</i>

Involvement in the region <i>The extent to which GasTerra is involved in the North Netherlands region. The issues raised in this context are sponsorship, joint ventures in the region and non-gas-related purchases.</i>
GasTerra's role in the gas market <i>The extent to which GasTerra plays a role in the gas market. The issues raised in this context include contribution to the phasing-out of gas extraction in Groningen, TTF, gas extraction from small fields and contractual relationships.</i>

The outcomes of the survey show that the extent to which GasTerra complies with its contractual obligations is the most important issue for stakeholders. This is followed by the issues of sustainable deployability, chain management, economic performance, and GasTerra's role in the gas market. During the in-depth interviews, more background information on the results of the online survey was obtained.

The new quantitative and qualitative approach of the stakeholder dialogue raised a number of issues that the stakeholders regard as material to GasTerra in view of their economic, ecological or social impact.

GasTerra's Board of Management compared the interest which stakeholders attach to the issues with GasTerra's own opinions. This resulted in the materiality matrix, which is part of the 2020 Business Plan and helps to determine the strategy to be developed.

The materiality matrix contains five material issues: contractual obligation, economic performance, sustainable deployability, GasTerra's role in the gas market and sustainable energy supply. These issues were also material in 2018. The issue of chain management (support for activities) was dropped as a material issue. This is because GasTerra's influence is limited by the nature of its activities in the chain.

The material issues form the basis for the management report, which is structured in such a way that for each material issue we report on developments in 2019 and set out the objectives for 2020.

The table below sets out in broad outline how relations with stakeholders are maintained.

Stakeholder group	Example	Interaction via
Clients	Energy firms and power plants, industries, export clients	Consultation with account managers, relationship event, periodic client satisfaction survey, stakeholder dialogue
Staff	Works Council, trade union	Regular consultation, Intranet, internal presentations, meetings between the Works Council and management, stakeholder dialogue
Shareholders	Shell Nederland B.V., Esso Nederland B.V., EBN B.V., Dutch State	Shareholders' assemblies, Expert consultation, Advisory Committee, Audit Committee, College of Delegate Supervisory Directors, Supervisory Board, stakeholder dialogue
Producers and Transport	Gas suppliers, GTS	Consultation with account managers, relationship event, stakeholder dialogue
National government and market regulators	Authority for Consumers and Markets (ACM)	Via Energie Nederland, periodic consultation, stakeholder dialogue

Knowledge and education institutions	Hanze College, University of Groningen, New Energy Coalition, Clingendael, CE Delft	Internships, guest lectures, project contributions, stakeholder dialogue
Sectoral organisations	Energie Nederland, KVGn, Eurogas, VEMW, Nogepea, EASEE Gas	Periodic consultation, participation in working groups, board membership, Energy podium dinners, stakeholder dialogue
Social organisations	Groningen Ground Movement, Greenpeace, Nature and Environment Foundation	Energy podium dinners, stakeholder dialogue
Regional groups	Sponsors, regional non-gas suppliers, communities, local government	Relationship event sponsored groups, periodic consultation, 2017 stakeholder dialogue

The table below shows the targets we set for material issues in 2019. One accident leading to time off work took place, which means that one of the targets under sustainable deployability was not met. The other targets referred to were met.

<b>Material issue</b>	<b>Target for 2019</b>
Contractual obligation	GasTerra will be fully in compliance with its contractual obligations.
Economic performance	<p>GasTerra will sell the annual volume of Groningen gas offered by NAM (2018/2019 gas year) and will in doing so ensure that production remains within the degree/day formula.</p> <p>We will make the maximum possible use of resources such as storage facilities in our portfolio.</p> <p>We will try to make a margin on our purchases and sales.</p> <p>We will use the market potential for optimisation.</p> <p>The running costs will remain within budget in the 2019 calendar year.</p>
Sustainable deployability	<p>There will be 0 accidents leading to time off work, and the sick leave percentage will be below 2.5% in the 2019 calendar year.</p> <p>We will implement the new HR policy.</p>
Sustainable energy supply	<p>We will take part in projects under the Strategic Agenda of GILDE (Gas as part of Long-term Sustainable Energy Management). We will lead the Green Gas project.</p> <p>In our energy transition budget we will focus on sustainable gases such as green gas and hydrogen.</p> <p>We will consider how we can work with partners to develop a programme to achieve the annual production of green gas of two billion cubic metres set out in the Climate Agreement for 2030.</p>
Support for activities	GasTerra will actively support the vision developed by the gas sector as part of the sectoral organisation KVGn that links the need to continue to work towards a CO <sub>2</sub> -neutral energy supply to maintaining the current level of security of supply at the lowest possible social cost.
GasTerra's role in the gas market	In the light of the decision taken on Groningen gas extraction, we look into our mission and strategy to form a picture of the role that GasTerra can play in future.



### 6.1.5. Management of material issues

CSR is an integral part of the strategy at GasTerra and is therefore embedded into our day-to-day operations. As described in the chapter 'In dialogue with our stakeholders', GasTerra has integrated the materiality matrix and associated objectives and activities into the Business Plan which is approved by the Board of Supervisory Directors. Progress of targets and activities is included in the regular reporting cycle and discussed once a month with the Board of Management and once a quarter with the College of Supervisory Directors and the Audit Committee.

### 6.1.6. Reporting principles

Information	Definition/calculation method
Sickness absence (in %)	The number of calendar days (including weekends) lost due to sickness in the observation period, divided by the number of staff (in full-time equivalents), multiplied by the number of calendar days in the observation period.
Average absenteeism rate	The average number of times that an employee reports sick per year.
Gas consumption	The gas consumption of the GasTerra offices at Stationsweg in Groningen according to the final settlement from the energy supplier.
Electricity	The electricity consumption of the GasTerra offices at Stationsweg in Groningen according to the final settlement from the energy supplier.
Water consumption	The water consumption of the GasTerra offices at Stationsweg in Groningen according to the final settlement from the water supplier.
Paper consumption	The paper consumption according to the readings from the supplier of the copy machines.
CO <sub>2</sub> offsetting	Reduction in the footprint in tonnes of CO <sub>2</sub> as a result of investment in programmes that contribute to reducing CO <sub>2</sub> emissions.

## 6.2. Facts and figures

### 6.2.1. Staff trends

As of 31 December 2019 141 (131.2 Fte) people were permanent employees of GasTerra compared to 152 (141.4 Fte) at the end of 2018.

GasTerra has its own collective labour agreement and most of the company's staff are actively involved in the sectoral trade union, the VPG<sup>2</sup>. Together with N.V. Nederlandse Gasunie, GasTerra is affiliated with the Stichting Pensioenfonds Gasunie (Gasunie Pension Fund Foundation). GasTerra's employees have a pension scheme administered here. An explanation of this scheme is contained in the financial statements.

	<b>2019</b>	<b>2018</b>
Fte ( <i>year end</i> )	131.2	141.4
Number ( <i>year end</i> )	141 (101 men, 40 women)	152 (110 men, 42 women)
Fixed-term contract of employment ( <i>year end</i> )	-	-
Permanent contract of employment ( <i>year end</i> )	141	152
Staff covered by a collective labour agreement ( <i>year end</i> )	121	128
Staff employed under payrolling ( <i>year end</i> )	6	9
Participation Act ( <i>year end</i> )	1	1
Secondments ( <i>year end</i> )	0	3
Interns ( <i>year end</i> )	3	0
Degree of organisation	>80%	>80%
Outflow	15	13
Inflow	4	0
Absence due to illness	1.67%	2.47%
Average absenteeism rate	0.81	0.98
Accidents leading to time off work	1	0

### 6.2.2. GasTerra's footprint

GasTerra's footprint is small thanks to the nature of its activities. Where possible we try to minimise it further in order to reduce the environmental impact of our operations.

Our office building is located in the centre of Groningen. The building, which dates back to the 1980s, was fully renovated and modernised in 2012. The installation of facilities such as solar panels, triple glazing, heat/cold storage and LED screens led to the building being awarded an A+ energy label, which is a high score. Continuous monitoring of the energy streams and energy consumption of the building gives us a good idea of our energy balance, allowing improved efficiency.

The number of parking spaces at the office is limited, and so many employees travel to and from work by public transport or bike. We encourage staff to use public transport for work-related travel. A company car that uses green gas is available for general use, and there are four charging points for electric cars.

GasTerra offsets the CO<sub>2</sub> emissions of the office, flights and car leasing by buying carbon credits from the Climate Neutral Group (CNG). This enables this organisation to invest in countries where this has a positive effect on the local economy, employment, incomes, the environment and the climate. In 2018 GasTerra offset 439.84 tonnes of CO<sub>2</sub> equivalents and contributed to investment in biogas installations for families in Tanzania.

	<b>2019</b>	<b>2018</b>
Gas consumption	27,673 cubic metres	31,327 cubic metres
Electricity consumption	373,567 kWh	387,999 kWh
Water consumption	1,126 cubic metres	1,123 cubic metres
Paper consumption	240,656 sheets	267,625 sheets

### 6.2.3. Standards and norms

GasTerra attaches a great deal of importance to safeguarding the quality and integrity of the staff's actions. This is why GasTerra has a code of conduct with norms and values. New GasTerra employees formally undertake to comply with the code of conduct at the beginning of their employment. Attention is also regularly drawn to the code of conduct within the organisation. A focus on customers, a focus on results and a focus on improvement are GasTerra's three core values. GasTerra employees are expected to use these concepts as a basis for their action.

The General Data Protection Regulation came into force on 25 May 2018. This regulation replaced the existing Personal Data Protection Act and is designed to protect the personal data of individuals. GasTerra has implemented procedures and set up specific instructions for staff to ensure compliance with this.

An internal auditor inspects departments at set times to ascertain whether they are complying with all procedures and rules. The results of the audits are discussed with the Board of Management, the auditor and the Audit Committee. Rules and procedures of conduct are adapted or expanded if necessary or desirable. There were no reports in 2019 of employees failing to comply with the code of conduct or additional procedures.

GasTerra has two confidential advisers, one of whom is responsible for unwanted intimacy. The company also has a complaints procedure and whistle-blower policy. If employees have objections or complaints or if they detect abuses and solutions cannot be found with colleagues and managers, they can make use of these procedures. There were no reports of abuses or discrimination in 2019, no-one filed a complaint with the complaints committee and no-one made use of the whistle blowing policy.

Information security is vitally important for the operations of a trading company such as GasTerra. Continuous attention to information security is essential because of the increasing threats and the professionalisation of cybercriminality. The best practices of the ISO27001 standards are the starting point for information security. Social hacks are carried out to test the adequacy of information security. Staff awareness in this area is vital, which is why the issue is regularly highlighted.

GasTerra has outsourced various IT activities, which are reported on via an ISAE3402 declaration.

#### 6.2.4. Memberships

We are actively involved in various cooperation organisations, in pursuit of goals such as exchanging knowledge, helping to develop innovative gas applications, publicising the benefits of the use of gas in the transition toward a sustainable energy supply and improving regulations. At an organisational level, GasTerra is a member of the following organisations and associations:

International Gas Union (IGU)  
Eurogas  
European Federation of Energy Traders (EFET)  
EASEE GAS  
CIEP  
Vereniging Energie Nederland  
Groen Gas Nederland

GasTerra is linked with KVGN, the Dutch gas sector organisation, via a number of individual memberships. GasTerra also takes part in regional, local or function-related associations and initiatives.

#### 6.2.5. Board of Management and Supervisory Board profiles

##### ***Ms. A.J. Krist MA – Managing Director (CEO)***

Annie Krist (1960) studied geography at the University of Groningen. She started her career at N.V. Nederlandse Gasunie in 1987, working in the marketing department. After this she held various roles in the sales department and headed up various account management teams. In the late 1990s Annie was a member of the Gasunie team that was responsible for the commercial, technical and IT changes resulting from the liberalisation of the gas market.

She joined the GTS management team in 2005. She was Director of Strategy and Holdings from 2008 to 2011. Annie Krist has been the General Manager of Gasunie Transport Services since 1 July 2011. From 1 May 2016 to 1 April 2017 she was also a member of the Executive Board of N.V. Nederlandse Gasunie. Annie Krist became the Managing Director (CEO) of GasTerra on 1 April 2017.

##### *Ancillary roles (unpaid)*

Board Member Energie Nederland  
Member Governing Board and Executive Committee Eurogas  
Associate member International Gas Union  
Chair Foundation Council New Energy Coalition  
Member Advisory Board Foundation Project Delta Group (PDG)  
Member Advisory Board Clingendael International Energy Programme  
Member Advisory Committee 'Bedrijfsleven Groningen Bereikbaar' (Accessible Groningen Business)  
Board Member Spatial Sciences Promotion Foundation

##### *Ancillary roles (paid)*

Chair Supervisory Board 'Stichting Kinderopvang Stad Groningen' (Groningen Child Support Foundation) (payment waived)  
Member of Stedin Supervisory Board and Audit Committee

**Mr. R.E. van Rede MSc – Commercial Director (CCO)**

Robert van Rede (1964) studied Petroleum Engineering at Delft Technical University. From 1990 to 1994 he worked at Petroleum Development Oman. In 1994 he joined the NAM where he held a number of positions. Subsequently, from 2003 to 2008 he worked for what was then Gasunie Trade & Supply as Area Manager Norway/Russia and UK, later returning to the NAM, first as Asset Commercial Manager Onshore, adding the role of Sales Manager in 2010. Robert van Rede joined the management team of GasTerra as Commercial Director (CCO) on 1 October 2013.

*Ancillary roles (unpaid)*

Member Emmalaan Commission Haren  
Chairman Empower Yourself Foundation  
Secretary Rotary Belcampo

**Mr. F.F. van Koten MA – Financial Director (CFO)**

Flip van Koten (1970) studied Econometrics at Groningen University. Since 1994 he has held various commercial and financial positions with ExxonMobil in the Netherlands, England, America and Qatar. From 2007 to 2011 he was a member of GasTerra's Supervisory Board and Shareholders' Advisory Committee. He was appointed Chief Operational Officer on 1 April 2016. He has been the Financial Director (CFO) of GasTerra since 1 October 2017.

*Ancillary roles (unpaid)*

Board member KVGN (Treasurer)  
Board member Gasunie Pension Fund Foundation (Chairman of the Investment Committee)

**Mr. B.C. Fortuyn MSc**

Bernard Fortuyn (1954) studied Engineering at Delft Technical University (graduated in 1981). On 12 February 2018 Mr. Fortuyn was appointed chairman of the Board of Supervisory Directors and the College of Delegate Supervisory Directors.

After leaving university Mr. Fortuyn held various positions with SHV Holdings N.V, Air Liquide S.A. and was CEO of N.V. Hoekloos. In 2005 he joined the Executive Board of Siemens Nederland N.V. From 2010 until his retirement in mid-2017 he was in charge of all Siemens' energy activities in the Netherlands as a member of the Executive Board of Siemens Nederland.

*Ancillary roles*

Chairman of the Supervisory Board NEMO Science Museum  
Trustee of Tauw Group B.V.  
Chairman of the Supervisory Board of Greenvision B.V. (Hygear)  
Trustee of ECN/NRG  
Chairman of the Advisory & Evaluation Team of TKI Urban Energy  
Member of the Topsector Energie management team

**Mr. A.F. Gaastra LL.M**

Sandor Gaastra (1962) studied Law at Utrecht University, specialising in Constitutional and Administrative Law (graduated in 1986). He is a member of the Board of Supervisory Directors and the College of Delegate Supervisory Directors of GasTerra.

Sandor Gaastra is the Director-General of Climate and Energy at the Ministry of Economic Affairs and Climate Policy, with responsibility for national and international climate and energy policy. Sandor studied Dutch law at Utrecht University, and later obtained the qualification of Master Public Administration at the Dutch College of Administration.

He began his career as a scientist, later taking on various policy and management positions in the Ministry of the Interior and Kingdom Relations and the Ministry of Security and Justice. Before moving to the Ministry of Economic Affairs and Climate Policy he was responsible for the formation of the Dutch National Police Force as Director-General for the Police.

**Mr. J.W. van Hoogstraten MSc**

Jan Willem van Hoogstraten (1964) studied petroleum extraction (graduated in 1989) at Delft Technical University. He is a member of the Board of Supervisory Directors and the College of Delegate Supervisory Directors of GasTerra.

After studying Mining and Petroleum Extraction at Delft Technical University, he started working for Shell, where he held various Well Engineering positions in Scotland, Nigeria, Indonesia and England. He then moved to Wintershall where he held various operational and commercial management positions.

At TAQA Energy he was initially employed as Project Director and later as Managing Director, responsible for various initiatives including the creation of one of Europe's largest commercial gas storage facilities at Bergermeer. He was appointed CEO of EBN by the minister of Economic Affairs and Climate Policy at the start of 2016.

*Ancillary roles*

Member of the Advisory Board for the Clingendael International Energy Programme (CIEP)

Member of the TNO Strategic Advisory Board on Energy

Member of the Foundation Board of the New Energy Coalition (NEC)

Chairman of the Board of Supervisory Directors of NEXSTEP

Chairman of the Royal Association of Gas Producers in the Netherlands (KVGN)

**Mr. R.M. de Jong MA**

Rolf de Jong (1962) studied business economics (graduated in 1990) at the University of Amsterdam. He is a member of the Board of Supervisory Directors and the College of Delegate Supervisory Directors of GasTerra.

He started working for ExxonMobil in 1991 and has held various positions in the Netherlands and abroad. He was closely involved in the break-up of Gasunie in 2004-2005. After that he worked in Houston, Texas (USA) from 2006 to 2013, holding various positions including Manager New Business Development Natural Gas and Manager Planning & Analysis Upstream Ventures. In 2013 he was appointed Managing Director ExxonMobil Tanzania in Dar es Salaam. In 2016 he was appointed Director Upstream for Esso Nederland B.V. and ExxonMobil Holding Company Holland LLC.

*Ancillary roles*

Member of the Supervisory Board of NAM B.V. (Dutch Petroleum Company)

President XTO Netherlands, Ltd.

**Mr. R.G. de Jongh MA**

Ruud de Jongh (1961) studied geology (graduated in 1987) at Utrecht University and later studied for an MBA at Henley Business School (1997). He is a member of the GasTerra Supervisory Board.

He started working for Shell in 1988 as a geologist, and since then has held various positions in the Netherlands and abroad. From 1997 to 2001 he worked for the Shell Production and Development Company in Nigeria. From 2001 to 2008 he was employed as Global LNG Manager at Shell Gas and Power International, later moving to take up the position of General Manager Marketing Persian LNG. Between 2010 and 2016 he moved back to Nigeria to represent Shell's interests in gas and LNG exports. In 2016 he was appointed General Manager Joint Venture Governance Shell Netherlands.

*Ancillary roles*

Chairman of the Board of Supervisory Directors of NAM  
Director Shell Geothermal B.V.  
Chairman of the Supervisory Board of NoordzeeWind  
Supervisory Board member Energy Delta Institute

**Mr. T.W. Langejan LL.M. MA**

Theo Langejan (1957) studied law (graduated in 1981) at the University of Leiden and business studies (graduated in 1982) at Delft Technical University. He is a member of the GasTerra Supervisory Board.

In 1983 he took up employment at the Ministry of Finance. Since then his roles have included various positions at the Ministry of Finance, the Ministry of Welfare, Health and Culture, the Ministry of the Interior and the Ministry of Social Affairs and Employment. From 2010 to 2014 Mr Langejan was chairman of the Board of Management of the Dutch Healthcare Authority. Since 2015 Mr. Langejan has been executive adviser to Twynstra Gudde, and since 2017 he has also been a special administration advisor to the Pension Federation.

*Ancillary roles*

Member of the Pension Administration and Management Advisory Board

**Ms. J.M.W.E van Loon MSc**

Marjan van Loon (1965) studied chemical engineering (graduated 1989) at Eindhoven Technical University. She is a member of the Board of Supervisory Directors and the College of Delegate Supervisory Directors of GasTerra.

In 1989, she took up a post of chemical technician at Shell. Since then she has held a number of positions at home and abroad. In the period 1997-2007, she was working in Australia as Technical Manager at the Karratha Gas Plant and in Malaysia as Regional Manager for LNG & Gas Processing. In 2007, she was appointed Global Manager for LNG and Gas Processing and from 2009 she was Vice President Integrated Gas and LNG. On 1 January 2016, she was appointed CEO of Shell Netherlands.

*Ancillary roles*

Member of the Executive Committee of the Confederation of Netherlands Industry and Employers (VNO-NCW)  
Member of the Board of Directors of the Association of the Dutch Petroleum Industry (VNPI)  
Chairman of the Dutch Board of Directors of the World Petroleum Congress  
Chairman of the Christiaan Huygens Prize Foundation

Member of the Board of the Avond van Wetenschap en Maatschappij (Evening of Science and Society)

Member of the Board of the Apeldoorn British-Dutch Dialogue Conference

Member of the Advisory Board for the Clingendael Energy Programme (CIEP)

Member of The Hague Economic Board

**Mr. L. Zirar MA**

Lahcen Zirar (1975) studied economics at Erasmus University in Rotterdam (graduated 2000). He is a member of the GasTerra Supervisory Board.

From 2001 onwards he held various upstream and downstream economic and commercial positions with ExxonMobil in a number of countries, including the Netherlands, Belgium Qatar and the United States. He is currently Commercial Manager Upstream Netherlands/UK SNS with ExxonMobil.

*Ancillary roles*

Mr. Zirar does not have any ancillary roles.



## 6.2.6. Glossary

Authority for Consumers and Markets (ACM)	Dutch regulator that implements market rules and ensures that the market operates well and fairly.
Balancing	Maintaining the gas streams in the gas transmission network in a state of equilibrium.
Biogas	Biogas is a mixture of gas produced as a result of biological enzymatic processes. The main components of biogas are methane and carbon dioxide.
CCS	Carbon Capture and Storage, the capture and underground storage of CO <sub>2</sub> .
CO <sub>2</sub>	CO <sub>2</sub> is a scientific abbreviation for carbon dioxide. CO <sub>2</sub> is a greenhouse gas that holds heat in the atmosphere, causing the temperature of the earth to rise (the greenhouse effect).  CO <sub>2</sub> is released during the combustion of biomass such as wood and plant waste and fossil fuels: oil, gas and coal. Much less CO <sub>2</sub> is released by the combustion of natural gas than by the combustion of oil and coal: 30% less CO <sub>2</sub> is released compared to oil, and 50% less CO <sub>2</sub> compared to coal.
G-gas	Groningen gas, natural gas obtained from the largest Dutch gas field in the province of Groningen. G-gas is a low-calorific gas (L-gas).
Gas year	A gas year runs from 1 October to 1 October.
Governance	The method of administration and supervision.
GRI	Global Reporting Initiative, worldwide guidelines for reporting on sustainability.
Green gas	Biogas with the same quality and combustion properties as natural gas.
Trading points	Virtual trading exchanges for gas.
Renewable gases	Gaseous energy carriers of non-fossil origin.
H-gas	High-calorific natural gas, or gas with a high calorific value. This gas contains relatively higher levels of hydrocarbons and so contains more energy than low-calorific gas.
Small fields policy	Government policy aimed at promoting the production of natural gas from the smaller gas fields in the Netherlands. Small fields are fields other than the Groningen field.
L-gas	Low-calorific gas, or gas with a low calorific value. Groningen gas, natural gas obtained from the largest Dutch gas field in the province of Groningen, is low-calorific gas.
LNG	Liquefied Natural Gas.
MiFID	Markets in Financial Instruments Directive, European investment directive to protect investors and the integrity of the financial markets, to promote fair, transparent, efficient and integrated financial markets and to further harmonise the European trading and investment market.
TSO	Transmission System Operator, operator of a (national) transmission network.
TTF	Title Transfer Facility, virtual trading point for gas in the Netherlands.

### 6.2.7. GRI Index

<b>GRI Content Index – GRI 101: Foundation 2016 – Core Level</b>		
<b>GRI Standard</b>	<b>Description</b>	<b>Chapter</b>
GRI 102 General Disclosures 2016	102-01 Name of the organisation	Chapter 1
	102-02 Activities, brands, products and services	Chapter 1
	102-03 Location of headquarters	Chapter 1
	102-04 Countries in which the organisation is active	Chapter 1
	102-05 Ownership structure and management form	Chapter 3
	102-06 Markets served (geographical breakdown, sectors served and types of clients/beneficiaries).	Chapters 1 and 2
	102-07 Size of the organisation	Chapter 6
	102-08 Information on employees	Chapter 6
	102-09 Description of the organisation's supply chain	Chapter 1
	102-10 Significant changes in the size of the organisation and its supply chain	Chapter 6
	102-11 Explanation of the application of the precautionary principle	Chapter 3
	102-12 Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes.	Chapter 1

	1102-13 Memberships or associations (such as sectoral associations) and national and international interest groups.	Chapter 6
	102-14 A statement from the senior decision-maker in the organisation	Foreword
	102-16 A description of the standards and norms applied in the organisation and of the code of conduct.	Chapter 6
	102-18 Governance structure	Chapter 3
	102-40 List of stakeholder groups	Chapters 1 and 6
	102-41 Number of employees covered by a collective bargaining agreement	Chapter 6
	102-42 Basis for inventorising and selecting interested parties that must be involved	Chapter 6
	102-43 Approach to involving interested parties	Chapter 6
	102-44 The key topics and issues arising from consultation with interested parties	Chapters 1 and 6
	102-45 Summary of all companies included in the consolidated financial statements or similar documents	Chapter 4
	102-46 Process used to determine the content and specific boundaries of the report and explanation of the principles used by the organisation to determine the content of the report.	Chapter 6
	102-47 Summary of material issues	Chapter 1
	102-48 Consequences of any reformulation of information provided in a previous report and the reasons for this reformulation.	Chapter 6

	102-49 Significant changes compared to previous reporting periods with regard to scope and boundaries.	Chapter 6
	102-50 Reporting period to which the information provided relates	Chapter 6
	102-51 Date of the most recent previous report	Chapter 6
	102-52 Reporting cycle	Chapter 6
	102-53 Contact for questions about the report	Chapter 6
	102-54 Option selected for reporting in accordance with GRI standards	Chapter 6
	102-55 GRI content index	Chapter 6
	102-56 Policy and current practice with regard to obtaining external verification about the report	Chapters 3, 5 and 6
<b>Material issues (summary of material issues in the report as reported under disclosure 102-47)</b>		
<b>Contractual obligation</b>		
GRI 103 Management approach	103-1 Explanation of and boundaries to the material issue	Sections 1.4 and 2.1
	103-2 Explanation of how the organisation deals with the material issue and its impact	Sections 1.4 and 2.1
	103-3 Evaluation of the management approach	Sections 1.4 and 2.1
GRI 200 Economic	201-1 Direct economic value generated and distributed	Sections 1.4 and 2.1

<b>Economic performance</b>		
GRI 103 Management approach	103-1 Explanation of and boundaries to the material issue	Sections 1.4 and 2.2
	103-2 Explanation of how the organisation deals with the material issue and its impact	Sections 1.4 and 2.2
	103-3 Evaluation of the management approach	Sections 1.4 and 2.2
GRI 200 Economic	201-1 Direct economic value generated and distributed	Sections 1.4 and 2.2
<b>Sustainable deployability</b>		
GRI 103 Management approach	103-1 Explanation of and boundaries to the material issue	Sections 1.4 and 2.3
	103-2 Explanation of how the organisation deals with the material issue and its impact	Sections 1.4 and 2.3
	103-3 Evaluation of the management approach	Sections 1.4 and 2.3
GRI 400 Social	401 Job opportunities	Sections 1.4 and 2.3
<b>Role of GasTerra in the gas market</b>		
GRI 103 Management approach	103-1 Explanation of and boundaries to the material issue	Sections 1.4 and 2.3
	103-2 Explanation of how the organisation deals with the material issue and its impact	Sections 1.4 and 2.4
	103-3 Evaluation of the management approach	Sections 1.4 and 2.4
GRI 200 Economic	203-2 Indirect economic impact	Sections 1.4 and 2.4

<b>Sustainable energy supply</b>		
GRI 103 Management approach	103-1 Explanation of and boundaries to the material issue	Sections 1.4 and 2.5
	103-2 Explanation of how the organisation deals with the material issue and its impact	Sections 1.4 and 2.5
	103-3 Evaluation of the management approach	Sections 1.4 and 2.5
GRI 200 Economic	203-2 Indirect economic impact	Sections 1.4 and 2.5
<b>Support for activities</b>		
GRI 103 Management approach	103-1 Explanation of and boundaries to the material issue	Sections 1.4 and 2.6
	103-2 Explanation of how the organisation deals with the material issue and its impact	Sections 1.4 and 2.6
	103-3 Evaluation of the management approach	Sections 1.4 and 2.6
GRI 200 Economic	203-2 Indirect economic impact	Sections 1.4 and 2.6

### 6.2.8. Colophon

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