ECONOMIC GROUP EANDIS

Condensed Consolidated Interim IFRS Financial Statements

30 June 2017

Content

Interim Financial Statements

Condensed consolidated statement of profit or loss

(In thousands of EUR)	Notes	30 June 2017	30 June 2016
Operating revenue		**1.514.039**	**1.409.838**
Revenue	4	1.340.124	1.249.707
Other operating income		28.115	26.910
Own construction, capitalized		145.800	133.221
Operating expenses		**-1.234.425**	**-1.122.924**
Cost of trade goods	5	-504.982	-490.349
Cost for services and other consumables	6	-152.593	-160.810
Employee benefit expenses	7	-203.146	-206.529
Depreciation, amortization, impairments and changes in provisions	8	-162.322	-163.052
Other operational expenses		-21.761	-24.866
Regulated transfers	9	-189.621	-77.318
Result from operations		**279.614**	**286.914**
Finance income	10	11.815	1.278
Finance costs	11	-80.418	-116.371
Profit before tax		**211.011**	**171.821**
Income tax expenses	12	-81.586	-53.284
Profit for the period		**129.425**	**118.537**

Condensed consolidated statement of comprehensive income

(In thousands of EUR)	Notes	30 June 2017	30 June 2016
Profit for the period		**129.425**	**118.537**
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods			
Actuarial gains (losses) on long-term employee benefits	20	37.099	-43.530
Deferred tax gains (losses)	12	-5.741	21.580
Net other comprehensive income not being reclassified to profit or loss in subsequent periods		**31.268**	**-21.950**
Total comprehensive income for the period		**160.693**	**96.587**

Condensed consolidated statement of financial position

(In thousands of EUR)	Notes	30 June 2017	31 December 2016
Non-current assets		**7.922.945**	**7.902.818**
Intangible assets	13	93.589	96.776
Property, plant and equipment	14	7.827.461	7.804.089
Investment in joint ventures and associates	15	30	30
Other investments	16	832	832
Longterm receivables		1.033	1.091
Current assets		**1.366.891**	**1.715.003**
Inventories		34.941	35.295
Trade and other receivables	17	1.329.303	1.677.000
Cash and cash equivalents		2.647	2.708
TOTAL ASSETS		**9.289.836**	**9.617.821**
EQUITY		**2.203.267**	**2.063.972**
Total equity attributable to owners of the parent	**18**	**2.203.174**	**2.063.879**
Capital		1.262.948	1.262.948
Reserves		784.156	811.641
Other comprehensive income		-609.910	-641.178
Retained earnings		765.980	630.468
Non-controlling interest	**18**	**93**	**93**
LIABILITIES		**7.086.569**	**7.553.849**
Non-current liabilities		**6.096.089**	**5.994.950**
Interest bearing loans and borrowings	19	5.388.902	5.244.409
Employee benefit liabilities	20	207.388	259.363
Derivative financial instruments	21	119.512	131.067
Provisions	22	12.544	14.936
Deferred tax liability	12	366.387	343.819
Government grants		1.356	1.356
Current liabilities		**990.480**	**1.558.899**
Interest bearing loans and borrowings	19	224.601	766.697
Trade payables and other current liabilities	23	630.502	589.936
Current tax liabilities	24	135.377	202.266
TOTAL EQUITY AND LIABILITIES		**9.289.836**	**9.617.821**

Condensed consolidated statement of changes in equity

(In thousands of EUR)	Share Capital	Reserves	Other compre-hensive income	Retained earnings	Total equity attributable to equity holders	Non-controlling interest	Total
Balance at 1 January 2016	**1.278.688**	**759.548**	**-651.430**	**589.313**	**1.976.119**	**1.079**	**1.977.198**
Total comprehensive income for the period	0	0	-21.951	118.537	**96.586**	0	**96.586**
Share capital decrease	0	0	0	0	**0**	-986	**-986**
Repayment of equity	-15.740	-23.928	0	36	**-39.632**	0	**-39.632**
Addition/decrease reserves	0	19.530	0	-19.530	**0**	0	**0**
Dividends paid	0	0	0	-1.758	**-1.758**	0	**-1.758**
Balance at 30 June 2016	**1.262.948**	**755.150**	**-673.381**	**686.598**	**2.031.315**	**93**	**2.031.408**
Balance at 1 January 2017	**1.262.948**	**811.641**	**-641.178**	**630.468**	**2.063.879**	**93**	**2.063.972**
Total comprehensive income for the period	0	0	31.268	129.425	**160.693**	0	**160.693**
Addition/decrease reserves	0	-27.485	0	27.485	**0**	0	**0**
Dividends paid	0	0	0	-21.398	**-21.398**	0	**-21.398**
Balance at 30 June 2017	**1.262.948**	**784.156**	**-609.910**	**765.980**	**2.203.174**	**93**	**2.203.267**

The above information is disclosed in the notes 'Equity' and as regards ‘Other comprehensive income’ the movements are disclosed in the notes ‘Income tax expenses’ and 'Employee benefit liabilities'.

Condensed consolidated statement of cash flows

(In thousands of EUR)	Notes	30 June 2017	30 June 2016
Profit for the period		129.425	118.537
Amortization of intangible assets	8	19.937	22.092
Depreciation on property, plant and equipment	8	141.795	141.815
Change in provisions (Reversal -; Recognition +)	8	-2.392	-1.965
Impairment current assets (Reversal -; Recognition +)	8	2.982	1.110
Gains or losses on realization receivables		1.095	3.315
Net finance costs		80.966	93.225
Change in fair value of derivative financial instruments	21	-11.555	21.868
Gains or losses on sale of property, plant and equipment		19.203	19.161
Income tax expense	12	81.586	53.284
Operating cash flow before change in working capital and provisions for employee benefits		**463.042**	**472.442**
Change in inventories		354	2.070
Change in trade and other receivables	17	343.671	-27.638
Change in trade payables and other current liabilities	23	9.391	50.958
Change in employee benefits	20	-14.966	-4.043
Net operating cash flow		**338.450**	**21.347**
Interest paid		-48.860	-54.477
Interest received		49	81
Financial discount on debts		200	236
Income tax paid	24	-131.648	-1.500
Net cash flow from operating activities		**621.233**	**438.129**
Proceeds from sale of property, plant and equipment		1.084	9.254
Purchase of intangible assets	13	-16.751	-18.203
Purchase of property, plant and equipment	14	-185.454	-157.486
Acquisition of companies and other investments		0	-9
Proceeds from sale of other investments		0	156
Net investments in longterm receivables		18	-143
Net cash flow used in investing activities		**-201.103**	**-166.431**
Repayment of share capital		0	-40.618
Repayment of borrowings	19	-204.291	-116.072
Proceeds from bonds/borrowings	19	199.737	0
Change in current liabilities	19	-394.239	-113.918
Dividends paid	18	-21.398	-1.758
Net cash flow from/used in financing activities		**-420.191**	**-272.366**
Net increase/decrease in cash		**-61**	**-668**
Cash and cash equivalents at the beginning of period		**2.708**	**3.656**
Cash and cash equivalents at the end of period		**2.647**	**2.988**

Selected explanatory notes

Basis of preparation

1. Corporate information

The consolidated financial statements of the Economic Group Eandis comprise – beside the accounts of the 7 Flemish Distribution System Operators (DSOs) Gaselwest, IMEA, Imewo, Intergem, Iveka, Iverlek and Sibelgas – the accounts of the subsidiaries being the operating company Eandis System Operator cvba, (previously Eandis cvba) and its subsidiaries, joint ventures and associates. The aggregated accounts taken together form the 'Economic Group'.
The DSOs are being managed centrally by their operating company Eandis System Operator.

The statutory aim of the DSOs is the distribution system operation as understood by the Flemish Energy Decree and their implementing orders, as well as carrying out each peripheral activity, such as public lighting.
The main activities are subject to the regulation by the Flemish Regulator of Electricity and Gas (VREG). For more information, see the 2016 IFRS financial statements of 31 December 2016 on the website www.eandis.be.
The Group can also carry out other activities such as energy services to local authorities (ESLA). At the request of the local public authorities (municipalities, cities, …) Eandis System Operator offers support at cost price aiming at planning and implementing efficient measures and projects for energy saving and energy efficiency.
The activity for the development, construction and operation of district heating grids and the delivery of heat was added to the portfolio of services. Likewise, the Group can ensure each related service or activity included in its mission statement.

The DSOs are mission charged associations according to the provisions of the Flemish Decree on Intermunicipal Cooperation (6 July 2001 as amended).

All companies of the Group are registered in Belgium.

In October 2011, Eandis System Operator obtained an A1 rating (negative outlook) from the rating agency 'Moody's Investors Service Ltd.' (Moody's). On 14 December 2016 this rating was downgraded to A3 with a stable outlook as a result of the non-execution of the merger of the seven DSOs in Eandis Assets and the discontinuation of the process to attract a private partner for this merged company. Despite the downgrade, Eandis System Operator remains a solid issuer with a rating that aligns with the rating of many of its European peers. See also the press releases of Eandis System Operator dated 3 October 2016 (No merger of the 7 distribution grid operators of the Eandis Group into Eandis Assets) and 14 December 2016 (Moody's downgraded Eandis's rating to A3 (stable)) on www.eandis.be.
On 18 January 2017, Eandis System Operator obtained a second rating. The German credit rating agency Creditreform Rating AG granted Eandis an A+ rating with stable outlook. See also the press release on www.eandis.be.

Eandis System Operator cvba operates in 229 cities and municipalities in the Flemish Region (Belgium) but also in 4 municipalities of the Walloon region. The Group employed on average 4.210 persons during 2016.

On 27 March 2017, the press reported on some policy initiatives introduced by the Flemish Energy Minister Tommelein regarding the future structure of the Flemish energy distribution and of Eandis System Operator, and more particularly about an integration of the operating companies Eandis System Operator and Infrax. The Board of Directors of Eandis System Operator has taken note of this and ascertained that the ideas expressed by the Minister fit the vision of Eandis System Operator and the steps already taken to establish Fluvius, a joint company of Eandis System Operator and Infrax. Therefore, Eandis System Operator looks forward to working on the future of the sector in consultation with the Flemish government.

Following the dismantling of the federal structure Intermixt which is currently entrusted with the management of the public participations in the transmission of electricity and the transport of gas, a possible partial integration of the intermunicipal financing associations into the DSOs is currently investigated.

More information about the events during the reporting period are included in the management report of Eandis System Operator group of 30 June 2017.

These condensed consolidated interim financial statements for the six months ended 30 June 2017 have been audited.

2. Significant accounting policies

2.1. Statement of compliance

These condensed consolidated interim IFRS statements for the six-month period ended 30 June 2017 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

They do not contain all the necessary information for a full set of financial statements, and should therefore be read in conjunction with the IFRS financial statements of the Economic Group Eandis for the year ended on 31 December 2016.

2.2. Summary of significant accounting policies

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with the accounting policies applied in the preparation of the consolidated financial statements for the year ended 31 December 2016 except for the new standards or interpretations in force since 1 January 2017.

The new standards and interpretations applicable from 1 January 2017 do not affect the condensed consolidated interim financial statements of the Group. Those standards and interpretations applicable for the accounting year beginning on 1 January 2017 were the following:

- Amendments to IAS 7 *Statement of Cash Flows* – Disclosure Initiative, applicable from 1 January 2017
  The amendments are part of the Disclosure Initiative of the IASB and require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

- Amendments to IAS 12 *Income Taxes* – Recognition of Deferred Tax Assets for Unrealised Losses, applicable from 1 January 2017
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity

should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

- Annual Improvements Cycle - 2014-2016 (published in December 2016), applicable from 1 January 2017 and 1 January 2018

The new and revised standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

The Group runs a project to assess the impact of the new standards IFRS 9, IFRS 15 and IFRS 16 and to evaluate any system adjustments.

- IFRS 9 *Financial Instruments*, applicable from 1 January 2018
  This standard was issued in the framework of a wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group intends to apply the new standard on the required effective date and will not apply the standard early.

  The Group has carried out a preliminary impact analysis for all three aspects of IFRS 9:

  - Classification and valuation: the main financial assets of the Group include the regulatory assets and balances but also the receivables concerning the green energy certificates and cogeneration certificates. The certificates are held by the Group for trading purposes and, consequently, the current accounting treatment at fair value through profit or loss account can thus be continued under the new standard. The classification and valuation of the regulatory assets and balances is further described in the preliminary impact analysis of the IFRS 15.
  - Impairments: The Group claims receivables, resulting as from its ordinary operations as well as from its role as social supplier. The receivables resulting from the ordinary activities are shortterm whereby an application of the expected credit losses calculation will have no impact. The current accounting rules for impairment may be maintained under the new standard. The receivables resulting from the Group's social role are described further in the summary of the IFRS 15 preliminary impact analysis.
  - Hedge accounting: the Group processed its derivatives at fair value through the profit or loss account. The new standard will have no impact on the current accounting treatment.

  The preliminary analysis as described above, is based on the currently available information and can change as a result of further detailed analysis or additional information that is made available to the Group in the future.

- IFRS 15 *Revenue from Contracts with Customers*, applicable from 1 January 2018
  IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. IFRS 15 shall apply to financial years beginning on or after 1 January 2018. The Group intends to retrospectively apply the new standard on the required effective date and will not apply the standard earlier.

The Group has carried out a preliminary impact analysis resulting in the following preliminary findings:

- Distribution and transmission grid fee (including regulatory assets and balances): there is currently no IFRS standard that should be applied in the European Union which prescribes how regulated revenue flows and the resulting regulatory asset and balances should be accounted for. In the past, the Group investigated how as to apply the appropriate accounting treatment. The Group is of the opinion that IFRS 15 will have no impact on the previous analysis and hence the current accounting treatment will be acceptable.
- Social supplier: for the year 2016 the Group recorded a write-down on the 'Trade receivables social customers' of more than 50 % of the total amount outstanding from these social customers. As a result of the specific regulation in which the Group operates (see note 'Working in a regulated environment'), it is possible that, for the current regulatory period, the costs are recovered, on the basis of its share in the eligible income (as approved by the Regulator) following a corresponding real recovery. A further analysis is necessary and will follow in the second half by 2017. The advance payments received can still be recognized by the Group with application of article 15 of the standard. The remaining revenue recognition will be postponed until the moment of the annual review and when the actual energy consumption of the customers is known.

The preliminary analysis as described above, is based on the currently available information and can change as a result of further detailed analysis or additional information that is made available to the Group in the future.

- IFRS 16 *Lease*, applicable from 1 January 2019

  IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  The Group is analyzing during 2017 the possible effects of this new standard on its consolidated financial statements.

2.3. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and the amounts of revenue and expenses.

The actual results could differ from these estimates.

In preparing these condensed consolidated interim financial statements, evaluation by management on the application of the accounting policies of the company as well as the sources of uncertainty used, are the same as those applied to the consolidated financial statements for the year ended 31 December 2016.

Segment information

3. Segment information

The Management Committee, responsible for the day-to-day management and the operational functioning of Eandis System Operator, its subsidiaries, joint ventures and associates (ESO Group) and the seven Flemish Distribution System Operators, reviews the financial data on the basis of a reporting in accordance with Belgian accounting standards.
This reporting is presented for the DSOs per energy component electricity and gas, as this is the best reflection of the nature and the financial profile of the activities. This segmentation also reflects the framework within which should be reported to the regulator VREG and it also forms the basis for the calculation of the distribution network tariffs for the electricity and gas activities. As a result, these tariffs are distinguished from each other and each has its own cost drivers, specificities and risks. The DSOs also report a segment 'Other' in which the non-regulated activities are included such as the activities which took place before the liberalisation of the energy market (2003); the activities for the energy services for local authorities (ESLA), the district heating activity and other less important activities.
Each of the seven DSOs operate in a separate territory (on the basis of the affiliated municipalities) and each applies separate network tariffs for its regulated activities. The information per legal entity can be consulted, for the individual financial statements of the DSOs, at the Central Balance Sheet Office of the National Bank of Belgium.
The activities of the operating company Eandis System Operator and its subsidiaries, joint ventures and associates are reported separately and on a consolidated basis. However, no segmentation per energy component is reported. All costs of these companies are recharged at cost price to mainly the seven DSOs where a breakdown by activity is performed based on an allocation system. Therefore the financial results of the operating companies (ESO group) are always 'zero'.

In accordance with IFRS 8, the Group reported at 3 June 2017 the following financial segmented information on the basis of the Belgian GAAP.

Statement of profit or loss

(In thousands of EUR) - Belgian GAAP	**Electricity**	**Gas**	**Other**	**ESO consolidated**	**Aggregated total**
Turnover	919.677	220.593	8.955	520.473	1.669.698
Other income	35.786	9.316	-252	20.492	65.341
Operating costs	792.507	141.717	8.779	533.875	1.476.878
Operating profit (loss)	**162.956**	**88.192**	**-76**	**7.090**	**258.161**
Financial income	20	0	39	54.021	54.080
Financial costs	57.565	27.523	-23	56.120	141.185
Profit (loss) of the period before taxes	**105.411**	**60.669**	**-14**	**4.991**	**171.057**
Income taxes	38.191	21.639	-61	4.991	64.760
Profit for the period	**67.220**	**39.030**	**47**	**0**	**106.297**

Statement of financial position

(In thousands of EUR) - Belgian GAAP	Electricity	Gas	Other	ESO consolidated	Aggregated total
Tangible fixed assets	4.805.330	3.103.355	9.608	2.758	7.921.051
Financial fixed assets	642	365	0	1.234	2.241
FIXED ASSETS	**4.805.972**	**3.103.720**	**9.608**	**3.992**	**7.923.292**
Amounts receivable after more than one year	0	0	660	3.470.500	3.471.160
Stocks and contracts in progress	43.695	130	7.071	34.941	85.837
Amounts receivable within one year	549.897	28.238	14.064	322.699	914.898
Cash at bank and in hand	56.544	-10.951	40.389	3.594	89.576
Deferred charges and accrued income	885.730	141.707	40	316.677	1.344.154
CURRENT ASSETS	**1.535.866**	**159.124**	**62.224**	**4.148.411**	**5.905.626**
Total Assets	**6.341.838**	**3.262.844**	**71.832**	**4.152.405**	**13.828.918**
Capital	770.323	492.625	0	915	1.263.863
Equity premium	0	0	0	68	68
Revaluation surplus	497.004	315.592	0	0	812.596
Reserves	465.397	297.801	20.958	4	784.160
Retained earnings	22.950	11.137	33.848	20	67.955
Profit of the period	67.220	39.030	47	0	106.297
Government grants	0	0	895	0	895
EQUITY	**1.822.895**	**1.156.186**	**55.748**	**1.007**	**3.035.835**
MINORITY INTEREST	**0**	**0**	**0**	**93**	**93**
PROVISIONS FOR LIABILITIES AND CHARGES	**5.433**	**11.727**	**461**	**249.874**	**267.494**
Amounts payable after more than one year	3.671.089	1.740.222	0	3.448.091	8.859.402
Amounts payable within one year	571.979	196.293	10.354	353.076	1.131.702
Accrued charges and deferred income	270.443	158.416	5.269	100.264	534.392
AMOUNTS PAYABLE	**4.513.511**	**2.094.931**	**15.623**	**3.901.431**	**10.525.496**
Total Liabilities	**6.341.838**	**3.262.844**	**71.832**	**4.152.405**	**13.828.918**

The reconciliation of the financial data mentioned above based on Belgian GAAP to IFRS

(In thousands of EUR) - Belgian GAAP	Aggregated total	IFRS	Difference
Turnover	1.669.698	1.340.124	329.574
Profit (loss) of the period before taxes	171.057	208.033	-36.976
Total Assets	13.828.918	9.289.836	4.539.082
Total Liabilities	13.828.918	9.289.836	4.539.082
Equity	3.035.835	2.175.129	-860.706

These differences can be explained as the result of:

- The elimination of all the transactions and balances between the members of the Economic Group Eandis as a result of the consolidation
- Reclassifications and adjustments/netting off
- The employee benefit liability is processed in the IFRS result
- The BE-GAAP deferred pension capitals are fully included in IFRS
- Adjustments for the provisions that do not meet the IFRS criteria are included, as well as adaptations to existing provisions
- The derivative financial instruments are recorded at fair value and an adjustment is recorded for the accrued interest
- Deferred taxes are recorded.

Information about major customers to which more than 10 % of the grid fee is invoiced
For the electricity segment there are two customers to whom respectively 40 % and 17 % was invoiced; for the segment gas there are three customers to whom respectively 40 %, 13 % and 15 % was billed.

Performance of the period

4. Operating revenue

Revenue increases from 1.249.707 k EUR in June 2016 to 1.340.124 k EUR in June 2017.
From 1 January 2017, the new tariff methodology of the VREG has been applied, implying an increase in distribution and transport grid revenue of 97.476 k EUR (see note 'Operating in a regulated environment').
The own construction capitalized increases from 133.221 k EUR on 30 June 2016 to 145.800 k EUR at 30 June 2017 due the higher level of the investment in grid activities compared to last year.

5. Cost of trade goods

The cost of trade goods increases by 14.633 k EUR compared to 30 June 2016 up to 504.982 k EUR.
This increase mainly concerns the costs for the transmission grid fee (electricity to Elia) partially offset by the decrease of the costs to purchase energy - electricity and gas - for the social customers. The costs to purchase the certificates (green power certificates and cogeneration certificates) remain at the same level of 2016 and amount to 188.896 k EUR for the period until 30 June 2017.

6. Cost for services and other consumables

The cost for services and other consumables amounts to 152.593 k EUR, a decrease of 8.217 k EUR compared to 30 June 2016.
The cost for the rational use of energy (RUE) decreases from 39.674 k EUR at 30 June 2016 to 32.409 k EUR at 30 June 2017.

7. Employee benefit expenses

For the first half of 2017, the employee benefit expenses amount to 203.146 k EUR, almost equal compared to 30 June 2016 when 206.529 k EUR was recorded.

8. Amortization, depreciation, impairment and changes in provisions

The amortization of intangible assets and the depreciation of property, plant and equipment amount to 161.732 k EUR at the end of June 2017 and 163.907 k EUR at the end of June 2016.
The impairment on trade receivables amounts to 2.982 k EUR (2016: 1.110 k EUR) and the changes in provisions concern write-backs for 2.392 k EUR at the end of June 2017 and 1.965 k EUR at the end of June 2016.

9. Regulated transfers

Since 2011 the Group has been reporting the additions, recoveries and regularisation for transfers in this separate section as ‘Operating expenses’, where previously they were reported as ‘Revenue'.
The Group believes that the balance between actual income and expenses and the budgeted income and expenses is not part of revenue, since the recovery through tariffs will occur in a subsequent period.
In 2017, 20,00 % of the regulatory assets/liabilities built up over the period 2010 to 2014 can be recovered. At the end of June 2017 an amount of 39.355 k EUR had already been recovered.
The regulatory balances built up during 2015, can be recovered based on fixed percentages as mentioned in the tariff methodology of 2017-2020 (see note ‘Working in a regulated environment’). For the period up to 30 June 2017, an amount of 83.034 k EUR was recuperated.
The regulatory balances built up during 2016 were approved by the Executive Council of the VREG on 9 August 2017 and may be recovered in accordance with the tariff methodology of 2017-2020 as from 1 January 2018 onwards.
Additional regulatory balances (refund) are recorded for the period up to the end of June 2017 for an amount of 67.224 k EUR - (see note ‘Work in a regulated environment’).

10. Financial income

The financial income increases from 1.278 k EUR in June 2016 to 11.815 k EUR in June 2017.
At the end of June 2017, an amount of 11.555 k EUR was included due to the fair value adjustment of the derivative financial instruments. At the end of June 2016 a loss of 21.868 k EUR was recorded (see note ‘Financial costs’).
The other financial income contains mainly financial discounts received from suppliers and income received or to be received from banks.
During 2016 a financial income was registered for the sale of a business centre (see note 'Other investments').

11. Financial costs

The financial costs decrease with 35.953 k EUR from 116.371 k EUR in June 2016 to 80.418 k EUR in June 2017.
In 2016, a cost was recorded for the fair value adjustment for derivative financial instruments. As the interest rate movement in the first half of 2017, an income was now processed in the financial income.
The interest charges on long-term financing is declining due to the low interest rate to refinance. The interest expenses decline from 88.879 k EUR on 30 June 2016 to 76.399 k on 30 June 2017.
Also interest charges were recorded on employee liabilities, as well as on the costs of debt and various bank charges.

12. Tax expenses

The tax expenses amount to 81.586 k EUR at the end of June 2017, an increase of 28.302 k EUR in comparison with the end of June 2016. This expense comprises the current income tax expenses and the deferred taxes.

Current income tax expenses

Based on the Programme Act of 19 December 2014, the DSOs are subject to the corporate income tax of 33,99 % as from the accounting year 2015 and are no longer subject to legal entity tax (on the part of the dividend related to the gas activity paid out to the private partner).
The total current income tax expense for the Group amounts to 64.760 k EUR at 30 June 2017 (61.273 k EUR at 30 June 2016).

Deferred income tax

Since the aforementioned law was ratified in 2014, deferred taxes for temporary differences were calculated between the tax values of assets and liabilities and the carrying amounts for financial reporting purposes, in accordance with the application of IAS12 income tax.

During 2016 a ruling for the DSOs was requested from the competent Federal Public Service to obtain its decision on the correct fiscal treatment of, amongst others, the revaluation of fixed assets, the notional interest deduction and the impairment losses of trade receivables.

In July 2017, the Federal Government announced a reform of the corporate tax which would lead to a reduction of the current rate of 33,99 % as from 2018. This measure will have a significant impact on deferred taxes and on the other comprehensive income.

The deferred taxes are a result of the following items and they trigger the following movements on the balance sheet, on the income statement and on equity:

(In thousands of EUR)	**30 June 2016**	**31 December 2016**
Property, plant & equipment	-537.454	-544.292
Derivative financial instruments	37.709	44.384
Employee benefit liabilities	121.867	140.545
Provisions, rehabilitation gas sites	278	986
Provisions, other	1.845	1.914
Impairment on trade receivables	9.829	13.105
Government grants	-461	-461
Net deferred tax asset/(liability)	**-366.387**	**-343.819**

The movements in the profit and loss account and the equity for the periods up to the end of June 2017 and June 2016 are as follows:

	30 June 2017		30 June 2016	
(In thousands of EUR)	**Movements via P&L**	**Movements via OCI***	**Movements via P&L**	**Movements via OCI***
Property, plant & equipment	0	6.838	0	7.438
Derivative financial instruments	-6.675	0	4.520	0
Employee benefit liabilities	-6.099	-12.579	-12.228	14.142
Provisions, rehabilitation gas sites	-708	0	-611	0
Provisions, other	-68	0	-73	0
Impairment on trade receivables	-3.276	0	16.381	0
Deferred tax benefit/(expense)	**-16.826**	**-5.741**	**7.989**	**21.580**

*OCI= Other comprehensive income

The main temporary differences relate to the revaluation of fixed assets and the provisions for pensions and other post-employment benefits. A deferred tax liability was recorded of 537.454 k EUR (544.292 k EUR in December 2016) related to the revaluation of fixed assets since, according to Belgian tax law, the costs are not deductible. Concerning the pension provision, the costs will be deductible according to Belgian tax law, and therefore a deferred tax asset was recorded of 121.867 k EUR (140.545 k EUR in December 2016).
The net deferred tax liability is composed as follows:

(In thousands of EUR)	**30 June 2016**	**31 December 2016**
Deferred tax asset	171.528	200.934
Deferred tax liabilty	-537.915	-544.753
Deferred tax liability, net	**-366.387**	**-343.819**

The movements of the deferred tax liability are as follows:

(In thousands of EUR)	**30 June 2017**	**30 June 2016**
As per beginning of the period	**-343.819**	**-334.860**
Tax income/(expense) recognised in profit or loss	-16.827	7.989
Tax income/(expense) recognised in OCI	-5.741	21.580
As per end of the period	**-366.387**	**-305.291**

13. Intangible assets

The intangible assets decrease from 96.776 k EUR at the end of December 2016 to 93.589 k EUR at the end of June 2017 due to the amortization and the limited acquisitions.
The additions relate to investments for the ‘smart projects’ and district heating. During the first half of 2017, the additions amounted to 16.751 k EUR and 18.203 k EUR the first half of 2016.

14. Property, plant and equipment

Property, plant and equipment increased with 23.372 k EUR to reach 7.827.461 k EUR by the end of June 2017.
The acquisitions during the first six months of 2017 amount to 185.454 k EUR compared to 157.486 k EUR during the first six months of 2016. This increase is the result of investments for the low and mid-voltage networks and low and mid-pressure networks.

An agreement was entered into to sell a site owned by the DSOs under certain conditions and within a time limit.

15. Investments in associates and joint ventures

These investments amount to 30 k EUR at the end of June 2017 and also as per 31 December 2016. These investments are held in Atrias cvba, Synductis cvba, Warmte@Vlaanderen cvba and Fluvius cvba. No activities are yet carried out in the latter two companies.

16. Other investments

The other investments amount to 832 k EUR at 30 June 2017, which is unchanged compared to 31 December 2016.
The other investments comprise the participations still held by the Group in the business centres situated in the distribution area of Gaselwest and Imewo.

17. Trade and other receivables

Trade and other receivables amount to 1.329.303 k EUR at 30 June 2017 and 1.677.000 k EUR at 31 December 2016.
The impairment on trade receivables amounts 79.036 k EUR at June 2017 and 76.054 k EUR at 31 December 2016.
The other receivables include the green energy certificates (GEC) and cogeneration certificates (CGC) for an amount of 408.396 k EUR (546.107 k EUR in December 2016).
The DSOs are required to buy renewable energy certificates, which are offered by the owners of solar panels and combined heat and power plants, at a fixed price. The DSOs can offer these certificates to the energy suppliers.
The significant decrease at 30 June 2017 of this amount of the GEC is the result of large sales of certificates to these energy suppliers. During the first half of 2017, 2.875.795 GSC and 10.000 CGC were sold for a total price of 250.455 k EUR. The GEC were sold at an average price of 87,02 euro (for certificates valued at 88,00 euros) and the CGC at an average price of 20,00 euro (valued at 20.00 euros).
During the first half of 2016, 987.584 GEC and 25 CGC were sold. The total income amounted to 86.142 k EUR. The GEC were sold at an average price of 87,22 EUR (certificates valued at 88,00 EUR) and the CGC at an average price of 21,00 EUR (measured at 20,00 EUR). The result from the sale has been included in the post 'Cost of trade goods'.
The item 'Solidarity receivables related to GEC' decreases from 16.892 k EUR at 31 December 2016 to 10.294 k EUR at 30 June 2017 (see note 'Trade payables and other current liabilities').

Beginning of August 2017, the Group received an amount of 105.000 k EUR as a result of the sale of GEC to VEA (Flemish Energy Agency) on the basis of the DAEB ('Dienst van Algemeen Economisch Belang') arrangement, stipulating that a maximum amount of 15.000 k EUR per DSO can be sold on an annual basis.

Also, the 'Transfers tariff' decreases from 587.235 k EUR at 31 December 2016 to 397.614 k EUR at the end of June 2017 (see note 'Working in a regulated environment').

Liabilities

18. Total equity

Equity amounts to 2.203.267 k EUR, an increase of 139.295 k EUR in comparison to December 2016.
This increase is due to the recording of the realized profit for the period amounting to 129.425 k EUR and an unrealized profit of 31.268 k EUR. Also a dividend was paid out for an amount of 21.398 k EUR.
The various components of equity and the movements are reflected in the 'Statement of changes in equity'.

The **share capital** amounts to 1.262.948.219,91 euro at the end of June 2017, unchanged compared to 31 December 2016.
The capital is fully subscribed and paid up and it represents the sum of the capital of the DSOs.

The table below gives an overview of the number of shares and profit certificates per category in the capital of each DSO at 30 June 2017.

	Shares A and C		Profit certificates C		Total	
DSO	Number	Share Capital (in €)	Number	(in €)	Number	Share Capital (in €)
Gaselwest	23.380.013	271.033.935,03	116	0,00	23.380.129	271.033.935,03
IMEA	13.397.899	126.070.700,07	12	0,00	13.397.911	126.070.700,07
Imewo	21.585.912	257.170.000,11	85	0,00	21.585.997	257.170.000,11
Intergem	11.120.262	97.527.148,81	46	0,00	11.120.308	97.527.148,81
Iveka	17.003.557	186.138.498,91	86	0,00	17.003.643	186.138.498,91
Iverlek	29.444.704	254.083.895,51	103	0,00	29.444.807	254.083.895,51
Sibelgas (1)	3.264.382	70.924.041,47	0	0,00	3.264.382	70.924.041,47
Total	**119.196.729**	**1.262.948.219,91**	**448**	**0,00**	**119.197.177**	**1.262.948.219,91**

(1) In Sibelgas 10.000 shares D are issued without representation in the share capital

Reserves

To comply with the methodology as provided for in the ruling obtained from the Federal Public Service Finances in the accounts according to the Belgian GAAP, an amount of 27.485 k EUR was transferred from the reserve to revaluation. This entry results for the IFRS accounts in a shift of the reserves to the retained earnings. This adjustment consists of an amount of 37.807 k EUR that was retrieved from the reserves to the retained earnings, as a correction on the revaluation value of the past. Furthermore, the Belgian GAAP now restricts the transfer to reserves, where it was set at 2 % of the revaluation surplus. On 30 June 2017, an amount of 10.322 k EUR was transferred (2016: 19.530 k EUR).

The dividend balance for 2016, paid out during 2017 amounted to 21.397 k EUR and the dividend balance for 2015, paid out during 2016 amounted to 1.758 k EUR.

DSO (In thousands of EUR)	30 June 2017	30 June 2016
Gaselwest	8.171	1.035
IMEA	1.398	449
Imewo	3.498	0
Intergem	1.782	0
Iveka	2.567	0
Iverlek	3.548	75
Sibelgas	434	199
Total	**21.398**	**1.758**

Detail of **other comprehensive income:**

DSO (In thousand of EUR)	30 June 2017	31 December 2016
Related to employee benefit liabilities	-109.766	-146.775
Related to deferred tax liabilities	-500.144	-494.403
Total other comprehensive income	**-609.910**	**-641.178**

The **non-controlling interest** amounts to 93 k EUR at 30 June 2017 and is equal to the amount at 31 December 2016. It comprises the participation held by third parties in 'De Stroomlijn cvba'.

19. Interest bearing loans and borrowings, current and non-current

(In thousands of EUR)	30 June 2017	31 December 2016
Longterm loans	**5.388.902**	**5.244.409**
Current portion of longterm loans	207.531	355.388
Shortterm loans	17.070	411.309
Shortterm loans	**224.601**	**766.697**
Total	**5.613.503**	**6.011.106**

The longterm and shortterm loans decrease with 397.602 k EUR to 5.613.503 k EUR in comparison to 31 December 2016. This decrease is the result of, on the one hand, the repayment of a retail bond loan of 150.000 k EUR and of bank loans, the decrease of the current portion of longterm loans and, on the other hand, the increase of the loans on long term due to the issuance of a retail bond loan amounting to 200.000 k EUR (nominal value) offset by a transfer of the current portion of longterm loans

The **movements of the long and short-term loans** can be analyzed as follows:

(In thousands of EUR)	30 June 2017		31 December 2016	
	Cash	Non-cash	Cash	Non-cash
Total as at 1 January	**6.011.106**		**6.161.189**	
Movements on non-current loans (LT)				
Proceeds of non-current loans	199.737	0	400.000	0
Change in non-current loans	0	1.202	0	2.404
Transfer of shortterm portion of LT loan to ST	0	-56.434	0	-355.388
Movements on current loans (ST)				
Proceeds of current loans	17.070	0	411.309	0
Proceeds of current loans, other	0	0	0	0
Transfer of shortterm portion from LT loan to ST	0	56.434	0	355.388
Change in current loans	0	-12	0	0
Repayment of shortterm portion of longterm loan	-204.291	0	-738.558	0
Repayment current loans	-411.309	0	-225.238	0
Total movements	**-398.792**	**1.190**	**-152.487**	**2.404**
Total	**5.613.503**		**6.011.106**	

Longterm loans
This item contains bank loans, bonds (since 2010) and private placements issued by Eandis System Operator.

The increase of 200.939 k EUR compared to December 2016 is the result of the issuance of a retail bond loan of 199.738 k EUR (see further) and to the recording of the agio/disagio spread over the term of the bond loan. Furthermore, there is the transfer of the current portion of long-term loans for an amount of 56.434 k EUR.

In October 2011, Moody's granted Eandis System Operator an ‘A1’ credit rating with a ‘negative outlook’. This rating was reconfirmed by Moody's on 5 July 2016. On 14 December 2016, however, Moody's downgraded the rating to A3 (stable outlook) as the merger of the seven DSOs in Eandis Assets was not accomplished during 2016 and so attracting a private partner for this merged company had to be stopped.
On 18 January 2017, Eandis obtained a second rating. The German credit rating agency Creditreform Rating AG granted Eandis System Operator an A+ rating with stable outlook.

Eandis System Operator successfully issued bonds in the framework of its € 5 billion Euro Medium Term Note (EMTN) programme launched in 2011. There has always been a large interest from European investors for the bond issuances and also interest from private investors to whom several bond loans were issued.

In the framework of the € 5 billion EMTN programme an amount of 2.660.500 k EUR million or 53,21 % was issued at 30 June 2017. Since year end 2014 no bonds were issued under this programme.
The bonds are listed on the regulated market of the Luxembourg Stock Exchange and the issuances since November 2012 on the regulated market of Euronext and Alternext Brussels.

All outstanding loans are denominated in euro.
Derivative contracts were concluded for the loans with a variable interest rate to swap the variable interest rate to a fixed rate. Also forward interest rate swaps were subscribed to in order to fix the interest rate before the start of the loan.

For the bonds issued by Eandis System Operator, each of the DSOs is guarantor on a several but non-joint basis but limited to its proportional share in the capital of Eandis System Operator.

Distribution system operators use these funds primarily to fund their ongoing investments in the networks for electricity and gas, and for refinancing purposes.

During the first half of 2017 the Group issued an additional retail bond loan of 200.000 k EUR (nominal value), an annual coupon of 2,00 % earning a net return of 1.153 % and with a maturity of 8 years up to 23 June 2025. It replaces the retail bond loan issued in 2010 that became repayable on 23 June 2017 which had a coupon of 4,00 %.

Loans, current
This item contains the current portion of longterm loans (207.531 k EUR at 30 June 2017; 355.388 k EUR at 31 December 2016) and the bank loans on short term (17.070 k EUR at 30 June 2017; 411.309 k EUR at 31 December 2016).

The Group can call on the following credit facilities:

(In thousands of EUR)	Maturity	Available amount	Amounts used	Amounts not used	Average interest rate*
Commercial paper		522.000	0	522.000	N/A
Fixed advances		200.000	0	200.000	N/A
Fixed loans / Bank overdraft (1)	Daily	200.000	17.070	182.930	0,40%
Fixed loans		100.000	0	100.000	N/A
Total at 30 June 2017		**1.022.000**	**17.070**	**1.004.930**	
Commercial paper	(2)	522.000	355.000	167.000	0,06%
Fixed advances		200.000	0	200.000	N/A
Fixed loans / Bank overdraft (1)	Daily	200.000	56.309	143.691	0,50%
Fixed loans		100.000	0	100.000	N/A
Total at 31 December 2016		**1.022.000**	**411.309**	**610.691**	

(1) The average interest rate of the amounts used at the end of the period
(2) 50.000 k EUR at 13/1/2017; 50.000 k EUR at 31/1/2017, 155.000 k EUR at 7/2/2017 and 100.000 k EUR at 13/2/2017

The fair value of the loans is disclosed in the note 'Financial instruments: risks and fair value'.

20. Employee benefit liabilities

The employee benefit liabilities decrease from 259.363 k EUR at the end of December 2016 to 207.388 k EUR at 30 June 2017. This decrease is mainly explained by the ongoing deposits in the pension funds and the adoption of the assumptions: the discount rate and the positive return on the plan assets. The decrease in the provision by 51.975 k EUR is processed as a profit via the profit or loss account for 14.966 k EUR and for 37.009 k EUR in other comprehensive income.

21. Derivative financial instruments

The fair value of the derivative financial instruments amounts to 119.512 k EUR at 30 June 2017 and 131.067 k EUR at 31 December 2016, a decrease of 11.555 k EUR as a result of the decreasing interest rates.

22. Provisions

These provisions decrease from 14.936 k EUR at the end of 2016 to 12.544 k EUR at 30 June 2017. This decrease is the result of the use of provisions for the rehabilitation of various polluted gas factory sites.

Since 2014, the Group has launched a number of applications to obtain subsidies for different of these polluted sites.

23. Trade payables and other current liabilities

The trade payables and other current liabilities have increased since 31 December 2016 with 40.566 k EUR to 630.502 k EUR at the end of June 2017.
This increase is mainly due to an increase in the outstanding amount payable to suppliers and the other current liabilities.
The item ‘other current liabilities’ contains the provisions for interest payable on mainly the bond loans, the provisions for transportation cost (Elia), the provisions for personnel costs and the employee benefit expenses.
On the other hand, all other items decrease and mainly the item ‘Solidarity payables relating to green energy certificates' and the item related to the liability on personnel expenses (to the social security).

24. Current tax liabilities

The current tax liabilities decrease with 66.889 k EUR to 135.377 k EUR at 30 June 2017.
This item represents the outstanding income taxes payable with respect to fiscal year 2016 and the estimated tax liability of the current financial year for the different companies of the Group. During the first half year of 2017 various taxes have been paid relating to fiscal year 2015 (103.963 k EUR) and also prepayment on taxes for fiscal year 2017 (27.685 k EUR).

Financial instruments

25. Financial instruments: risks and fair value

Risks

Potential risks are managed by Eandis System Operator in a systematic way via the ‘integral risk management’ methodology.

More detailed information about the risks of the Group and its shareholders is included in the IFRS consolidated financial statements of 31 December 2016, the prospectus of 2 June 2017 concerning the 'notification in respect of the public offer of bonds'. These documents can be consulted on the website of Eandis System Operator www.eandis.be.

Fair value

The fair value of financial assets and liabilities is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties that are independent in an arm's length transaction and not in a forced sale or liquidation sale.
As of 30 June 2017 the fair values are:

	Fair value		**Book value**
(In thousands of EUR)	**Level 1**	**Level 2**	
Other investments	998	0	832
Green energy and cogeneration certificates (GEC & CGC)	408.396	0	408.396
Trade and other receivables excluding GEC and CGC	920.907	0	920.907
Cash and cash equivalents	2.647	0	2.647
Total	**1.332.948**	**0**	**1.332.782**
Loans on short term	17.070	0	17.070
Bond loans (included shortterm part)	3.851.839	0	3.448.091
Loans on long term (included shortterm part)	2.148.342	0	2.148.342
Derivative financial instruments	0	119.512	119.512
Total	**6.017.251**	**119.512**	**5.733.015**

As of 30 June 2016 the fair values are:

	Fair value		**Book value**
(In thousands of EUR)	**Level 1**	**Level 2**	
Other investments	987	0	832
Green energy and cogeneration certificates (GEC & CGC)	546.107	0	546.107
Trade and other receivables excluding GEC and CGC	1.130.893	0	1.130.893
Cash and cash equivalents	2.708	0	2.708
Total	**1.680.695**	**0**	**1.680.540**
Loans on short term	411.309	0	411.309
Bond loans (included shortterm part)	3.880.975	0	3.397.164
Loans on long term (included shortterm part)	2.202.633	0	2.202.633
Derivative financial instruments	0	131.067	131.067
Total	**6.494.917**	**131.067**	**6.142.173**

Fair value hierarchy

The fair value of all financial instruments, except the derivative financial instruments, is disclosed at level 1. This means that the valuation is based on quoted prices in an active market.

The derivative financial instruments are classified as level 2. The fair value of these instruments is based on other input than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

The fair value of the quoted bonds, issued for a total amount of 3.030.500 k EUR, varies according to the market interest rate. The fair value at 30 June 2017 amounts to 3.411.839 k EUR and differs from the amount that will be reimbursed and from the carrying value. The fair value was obtained based on the indicative quotations on Bloomberg (Bloomberg is a prominent provider of business and financial market news. It delivers world economic news, quotes for stock futures, stocks and other).

There were no transfers between the levels during the period.

Other information

26. Related parties

The nature of the transactions with the Management Committee, the directors and other related parties during the first half of 2017 does not substantially differ from the transactions included in the annual report of 2016.

27. Subsequent events

There were no events after the reporting date that may have a significant impact on these interim consolidated financial statements of the Group of 30 June 2017.

Operating in a regulated environment

28. Operating in a regulated environment

The Group operates in a regulated environment and hence revenue is based on tariff rates approved by the regulator.
As a result of the sixth State Reform the VREG – Flemish Regulator of the electricity and gas markets - has as from **1 July 2014**, retrieved the competence of the federal regulator CREG, to determine the distribution tariff methodology for the Flemish region.

- **Tariff methodology 2015-2016**

On 30 September 2014, the VREG determined a new tariff rate methodology for electricity and gas for the DSOs active in the Flemish region for the regulatory period 2015-2016.
In building the new tariff method the following elements were taken into account: promoting efficient operations, information asymmetry, stability, transparency, administrative efficiency and avoiding rate volatility. This method should be an incentive for the DSOs to work in a cost-efficient and sustainable manner.

Tariffs for 2016

On 14 December 2015 the VREG published the distribution tariffs for electricity and gas.
The main changes concern the provisional recharge of 20 % of the accumulated deficit (regulatory transfer) from the period 2010-2014, the abolishment of the 100 kWh free electricity and the full globalization in Flanders of the cost of green energy by also removing the ceiling that was used in the past for the settlement.
fThe accumulated balances related to the Federal contribution - charges to finance funds held by the CREG - must be recorded on the balance sheet and will be settled as soon as a decision is taken by the CREG (federal matter).

On 4 May 2016, the VREG reviewed the existing tariff methodology 2015-2016 as a result of the introduction of the public service obligation of the distribution system operators to stimulate the infrastructure for electric vehicles. This tariff methodology does not affect the distribution tariffs. The costs and benefits of the operation will be followed up during 10 years and then settled.

- **Tariff methodology 2017-2020**

On 24 August 2016, the VREG published the tariff methodology for the Flemish electricity and natural gas distribution system operators for the period 2017-2020.
The tariff methodology includes among others

- Adjustments to the parameters for the remuneration for the cost of capital (a remuneration for the investments made by the shareholders): equity to 5,24 % (pre-tax 7,94 %), the cost of debt capital to 3,04 % and a gearing of 60,00 % (the ratio equity/debt is 40/60). In total the weighted average capital cost is 5,00 %.
- further recuperation of the regulatory assets/liabilities for the period 2010-2014 over 5 years (until 2020)
- the new regulatory balances can be recuperated according to an annual percentage of cumulated balance: exogenous costs (60 %), volume differences 75 % (electricity) and 40 % (gas), corporate income tax (for the part via endogenous costs), indexing of endogenous cost 50 %
- In the future, there will be reports on the quality of service (Q-factor): for example power cuts and intervention time for connectivity. The financial settlement will take place via a bonus or malus starting from the next regulatory period. During this tariff period the DSOs only need to report to the regulator.

Eligible income 2017

On 7 October 2016, the VREG established the allowed income for the natural gas and electricity distribution system operators for 2017. The distribution rates were determined on the basis of the tariff methodology 2017-2020. For both gas and electricity, there is an increase compared to 2016 mainly due to the increasing costs for the GEC (electricity) and the processing of the regulatory balances.
Also at the same date, the regulatory balances for the year 2015 were approved.

Tariffs for 2017

On 20 December 2016, the VREG approved the distribution tariffs for electricity and gas for the year 2017. The rates for electricity rise because of the increased costs on which the distribution system operator does not have any impact (exogeneous costs as GEC and RUE contributions).

From 1 March 2017 the tariffs have been adopted for households and small businesses as a result of the limited increase in Elia rates for the transmission network. The rates of Elia were approved by CREG.

- **Additional information**

Additional information was included in the ‘Consolidated financial statements IFRS' of 2016 in the note 'Working in a regulated environment', available on the website www.eandis.be and also the information in the Prospectus of 2 June 2017.

With regard to the transfers, being the differences between the actual and the budgeted costs and revenues and the settlement mechanism, the regulatory assets and the related calculations still need to obtain approval by the regulator, after the review of the reporting. This uncertainty comprises that the review carried out by the regulator can give rise to additional differences that need to be processed as an adjustment to the regulatory assets/liabilities or via the result in the following financial year.

Up till now, Eandis System Operator has not yet received a final decision from the regulator on the reporting of the results of 2010 up to 2014. The VREG has meanwhile started the review on the balances of 2010-2014 (which, in principle, will be completed by the end of 2017). In the meantime, already 20 %, on a yearly basis, of the regulatory transfers in relation to the period 2010-2014 was recovered from 2016 onwards.

- **Accounting treatment**

At the moment there are no specific IFRS guidelines as to the accounting treatment of the settlement mechanism in a regulated environment.
On 30 January 2014 the IASB published a new standard IFRS14 Regulatory Deferral Accounts. This new standard is applicable for "first time adopters" and allows the recording of regulated assets and liabilities as separate items of the balance sheet and profit and loss account. This standard was not endorsed by the EU.

Overview of the assets and liabilities of the settlement mechanism per year. These reported amounts include the federal contribution payable that will be settled separately (30 June 2017: 66.342 k EUR; 31 December 2016: 63.417 k EUR).

(In thousands of EUR)	**30 June 2017**	**31 December 2016**
Regulatory assets (*)		
Transfers 2008 - 2009	-2.014	-2.006
Transfers 2010 - 2014	227.196	266.551
Total regulatory assets	**225.182**	**264.545**
Regulatory balances		
Balances from 2015	185.241	268.275
Balances from 2016	54.414	54.414
Balances from 2017	-67.224	0
Total regulatory balances	**172.431**	**322.689**
Total amount recoverable	**397.613**	**587.234**
of which reported as Current assets	397.613	587.234

* Transfers were grouped according to their recuperation in the tariffs with 50,00 % take-back of the transfers recorded in 2008 and 2009 to recuperate during 2015 and 2016 (with the exception of the transfer for the Walloon municipalities) and 20,00 % take-back of the transfers recorded in 2010 up to and including 2014 to recuperate as from 2016 (with the exception of the scheme for the Walloon municipalities and separate treatment of the federal contribution. The regulatory balances from 2015 are recuperated via the tariffs based on the tariff methodology 2017-2020 (see above).

Reconciliation of the settlement mechanism

(In thousands of EUR)	30 June 2017	31 December 2016
Assets at 1 January	**587.234**	**658.965**
Recovered transfers from 2008 - 2009	-8	-55.894
Recovered transfers from 2010 - 2014	-39.355	-78.821
Transfer to third parties	0	113
Total movements regulatory assets (*)	**-39.363**	**-134.602**
Additional transfer from 2015	0	8.432
Additional transfer from 2016	0	54.414
Additional transfer from 2017	-67.224	0
Recovered transfer from 2015	-83.034	0
Total movements regulatory balances	**-150.258**	**62.846**
Total movements	**-189.621**	**-71.756**
of which - movement through the income statement	-189.621	-71.756
of which - transfer to third parties	0	25
Assets at the end of the reporting period	**397.613**	**587.234**

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Report of the statutory auditor to the shareholders of the Flemish distribution net owners on the review of the interim condensed consolidated financial statements of the Economic Group Eandis[1] as of 30 June 2017 and for the 6 month period then ended

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of the Economic Group Eandis (the "Company"), and its subsidiaries as at 30 June 2017 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the 6 month period then ended, and explanatory notes, collectively, the "Interim Condensed Consolidated Financial Statements". These statements show a consolidated balance sheet total of € 9.289.836 thousand and a net result for the six month period then ended of € 129.425 thousand. The board of directors is responsible for the preparation and presentation of these Interim Condensed Consolidated Financial Statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on these Interim Condensed Consolidated Financial Statements based on our review.

Scope of Review

We conducted our review in accordance the International Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

[1] The Economic Group Eandis consists of 7 mixed Flemish Distribution System Operators (DSOs): Gaselwest, IMEA, Imewo, Intergem, Iveka, Iverlek and Sibelgas who have a joint control over Eandis System Operator CVBA and its subsidiaries (De Stroomlijn CVBA, Warmte@Vlaanderen CVBA, Fluvius CVBA, Atrias CVBA and Synductis CVBA).

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Condensed Consolidated Financial Statements are not prepared, in all material aspects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

Emphasis of matter

Without qualifying our opinion, we wish to draw the attention to the information, included in the notes of the interim condensed consolidated financial statements related to operating in a regulated environment, which describes the specificities of the regulatory framework, tariffs and related accounting treatment. The information also clarifies the uncertainties related to the financial balances resulting from tariff settlement mechanisms which are still to be approved by the responsible regulators.

Ghent, 30 August 2017

Ernst & Young Réviseurs d'Entreprises SCCRL
Statutory auditor
represented by

Paul Eelen
Partner*
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