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Regulated information

Melle, 31 August 2016

HALF-YEARLY FINANCIAL REPORT OF THE EANDIS-GROUP¹ AS PER 30 JUNE 2016²

HIGHLIGHTS

- Eandis is working on a transformation of the Eandis Economic Group's **organizational and shareholder structure**. Most prominent elements are the merger of the seven former distribution system operators (DSOs) into **Eandis Assets** and the agreement with **State Grid Europe Ltd.** as a new shareholder in Eandis Assets (*both transactions subject to a number of conditions precedent*). Eandis cvba changes its name to **Eandis System Operator** cvba.
- The first district heating projects (Roeselare, Kuurne/Harelbeke, Turnhout) are under way.
- Eandis and Infrax have also agreed on the establishment of a **joint subsidiary for the smart metering chain**.
- Eandis and the **Flemish Energy Company** ('Vlaams Energiebedrijf') – each within its own responsibilities and compliant to current energy legislation - enter into a protocol of division of responsibilities for energy services aimed at local authorities in Flanders.
- An external audit on all processes carried out by Eandis results in the **ISO9001:2015 certificate**.
- Eandis supports the declaration of commitment for a **Flemish Energy Vision and Energy Pact**.
- Eandis is preparing itself for the **tariff methodology 2017-2020**, which the Flemish energy regulator VREG is developing for the electricity and gas distribution grid tariffs.
- **Synductis** demonstrates in practice the opportunities and benefits that can be obtained through synergy between different utilities. **De Watergroep** is joining Synductis.

¹ The Eandis-group comprises Eandis System Operator cvba and its consolidated subsidiaries De Stroomlijn cvba, Atrias cvba and Synductis cvba. As of 1 January 2016, the former subsidiary Indexis cvba has been fully integrated into Eandis System Operator cvba and is thus no longer a part of the consolidated group.

² All comparisons are with the figures reported as per 30 June 2015, unless stated otherwise.

- Eandis is aiming for maximum efficiency with concrete actions under the name **‘Breakthrough FIT’**.
- The decrease in Eandis System Operator’s **headcount** is continuing.
- A **fatal industrial accident** involving an employee has overshadowed the safety results.
- Eandis is developing a wide array of initiatives for its partners, the Flemish cities and municipalities, to allow them to reach their **climate objectives** and to effectively combat **energy poverty**.
- Eandis has again been awarded the **VOKA Charter Sustainable Business**.
- **Operating revenue** for the Eandis Consolidated Group fell by 3,1 per cent, while its **operating costs** were lower by 3,0 per cent.
- **No profit or loss**, since all costs are fully passed on to the DSOs based on the ‘transfer at cost’ principle.

MANAGEMENT REPORT

During the first half of 2016 the far-reaching **transformation of the Eandis Economic Group** was further implemented. There are several aspects to this operation.

In 2015, the shareholders of the seven former distribution system operators (DSOs) had approved the merger to form a single entity, the mission entrusted company **Eandis Assets**. However, a number of conditions precedent were linked to the realization of this merger, including the re-orientation of the five Walloon municipalities which belonged to the former DSO Gaselwest and the preservation of the individual tariffs of the former DSOs until the recovery of balances from the past has been completed. On 31 August 2016 not all the conditions precedent had been fulfilled, which means that the Eandis Assets merger has not yet been completely realised from a legal point of view.

In this respect, the name of Eandis cvba has been changed to **Eandis System Operator cvba**, which underlines the company’s mission.

In addition to the above-mentioned merger of the DSOs, Eandis Assets’ shareholders had decided in principle in mid-2015 to allow contributions to Eandis Assets’ share capital from a private partner. Eandis System Operator’s management started the selection process to find a suitable private partner. On 27 April 2016 the Flemish Parliament approved a decree³ which allows Flemish mission entrusted companies in the energy and waste management sectors to attract private capital within defined limits. To that aim, the specific legal form of the **‘mission entrusted company with private share ownership’** was created.

³ Decree of 13 May 2016 amending several articles of the Decree of 6 July 2001 on the intermunicipal cooperation, published in the Belgian State Gazette on 17 June 2016.

Eandis has sounded some seventy potential candidates about their possible interest in acquiring a 14 per cent stake in Eandis Assets. This resulted in a long list of 21 candidates. After a preliminary information round five candidates submitted a non-binding offer in early February 2016. Four potential investors were allowed into the second phase of the selection process. On 27 May 2016, Eandis received three binding offers. In early June 2016, after a thorough analysis of these offers, State Grid Europe Limited (SGEL) was selected as 'preferred bidder'. Negotiations with the preferred bidder were successfully concluded on 29 June 2016 with the signing of a **Subscription and Shareholders' Agreement between, on the one hand, Eandis Assets and Eandis System Operator and, on the other hand, State Grid Europe Limited and State Grid International Development (SGID)**. State Grid International Development is the parent company of SGEL and guarantees all SGEL's obligations. SGID is responsible for all participations outside China held by the utility company State Grid Corporation of China (SGCC).

On 30 June 2016, the **provinces of Antwerp and East Flanders** exited the distribution system operator Eandis Assets. This event led to a decrease in Eandis Assets' equity by 38,4 million euro. By doing this, both provinces were anticipating the exit of the provinces from the intermunicipal companies, which was required by Flemish legislation, by 31 December 2018 at the latest.

On 1 July 2016, the **financing associations (FICs)**⁴ joined Eandis Assets with a total share capital injection of 100 million euro. On behalf of the participating Flemish municipal authorities, these financing associations provide prefinancing and management of the municipalities' strategic participations in the energy sector.

The first projects for district heating grids are already taking shape. In **Roeselare** an existing district heating grid from the waste incinerator MIROM is being extended with three new branches. In **Kuurne and Harelbeke** (West Flanders) a district heating project is being developed along both sides of the river Leie. In **Turnhout** (specifically in the Niefhout neighbourhood with 600 homes) a modern district heating grid will be part of an urban renewal project. Eandis considers district heating as a valid alternative to traditional gas grids only if a number of important preconditions are met.

The **collaboration with Infrax** is becoming more intense. By joining forces, both operators are aiming to improve their overall cost efficiency. A first concrete example will be their collaboration in the smart metering project. Eandis and Infrax will evaluate through several working groups where synergies can be detected. The initial findings and recommendations are expected during the second half of 2016.

After an external audit of Eandis's quality management system and all of its processes, the **ISO9001:2015 certificate** was awarded to the company. This once again underlines the utmost attention paid by Eandis on the quality of its processes within the approach of operational excellence.

During the first half of 2016, **Synductis**, a joint initiative involving eight utilities from different sectors, clearly demonstrated the rationale for its existence and the added value which it offers. A fine example of the Synductis approach is the 'Sint-Maarten' construction site in the city of Mechelen. With Synductis as the coordinating project manager for the utility activities in the

⁴ These FICs are Fingem, IKA, Finiwo, Finilek, IBG, Figga and Finea.

construction of the Sint-Maarten Hospital, a maximum coordination and synergy between electricity, gas, telecom and water can be achieved: less nuisance, lower costs, greater simplicity and faster lead times are the result. **De Watergroep** (water distribution and sewage management) has joined Synductis, which reinforces the latter's operational strengths.

Since April 2016 anyone can consult the Eandis website (www.eandis.be) to look for the infrastructure works that Eandis is carrying out. There are approximately 150.000 larger and smaller works each year. This '**sites' communication tool** is an addition to the previously launched online tool with information on planned and unplanned power outages.

On 1 January 2016, the subsidiary **Indexis cvba** became fully integrated into Eandis System Operator. The Indexis staff were taken over by Eandis System Operator. Indexis itself ceased to exist as of 1 January 2016.

The Flemish energy regulator VREG has kicked off the formal consultation procedure for the **tariff methodology for electricity and gas for the 2017-2020 tariff period**. The outcome of the procedure for establishing this tariff methodology will be determinant for Eandis Assets' income in the period 2017-2020. The recovery of the outstanding balances from the past is a specific focus point for Eandis.

The Flemish government has expressed its ambition to make the energy system less carbon intensive, which is fully in line with the climate and energy objectives set out in the Paris COP21 climate agreement. In the next few years Eandis with its expertise will be an important partner for the Flemish authorities to implement this energy vision and to realize the energy transition. That is why Eandis, together with about 30 other parties, signed the **declaration of commitment to a Flemish Energy Vision and Energy Pact** on 16 June 2016.

Both Eandis and the **Flemish Energy Company** ('Vlaams Energiebedrijf') are offering a wide range of energy efficiency services to local authorities. The two parties have now agreed on a protocol of mutual arrangements on a division of responsibilities. The Flemish Energy Company, as a purchasing coordinator, will be responsible for energy tendering, while Eandis will focus on energy services provided to local authorities.

The Flemish authorities have imposed a **new public service obligation** on the DSOs. Between 2016 and 2020 the DSOs will have to install charging points for electric vehicles.

Eandis is taking numerous initiatives in the areas of **sustainability, climate objectives and energy poverty**. The most prominent among these are the fundamental decision to use LED in public lighting, the active promotion and support of electric mobility, the participation in the energy poverty plan of the Flemish government, and the plans for the sustainable urban development of the Eandis site and the 'Keerdok' in Mechelen. In Bornem, Eandis is planting an eco-forest: the more carbon dioxide Eandis can save, e.g. through more sustainable journeys, the larger the eco-forest will become.

For the second time in a row, Eandis has been awarded the **VOKA Charter for Sustainable Business**. This award underlines the many efforts that Eandis has made, working on the basis of its strategic vision, to ensure that it carries out its tasks in a sustainable way and in close cooperation with all its

stakeholders. The initiatives in the area of environmental management and the efforts of Eandis's own staff in the area of sustainability were singled out as particularly positive.

On 30 June 2016, Eandis System Operator had **4.027 employees** or 3.855,00 full-time equivalents (FTEs). This corresponds to a decrease by 62 employees (- 1,5 per cent) compared to the figure at the end of June 2015, notwithstanding the transfer to Eandis System Operator of 39 Indexis employees on 1 January 2016. The decrease in the number of staff is the continuation of a process that began in 2013. The entire Eandis group had a headcount of 4.297 employees (4.098,20 FTEs) on 30 June 2016.

On 5 February 2016, an Eandis employee lost his life in a **fatal industrial accident** in Ypres. This happened during an intervention on a low voltage distribution box. A formal investigation into the exact circumstances of this accident is currently being carried out by the competent authorities. This regrettable accident again demonstrates that **safety must be an absolute priority** in the operation of distribution infrastructure.

Eandis has launched an '**open data**' offering. Anonymized, aggregated consumption data can now be consulted free of charge. These data may support innovation in the energy market and the development of new services and products.

RISK FACTORS

The risk factors as described in the Eandis 2015 Annual Report and the EMTN Base Prospectus dated 25 November 2014 are still valid for the first half of 2016.

As highlighted in the above Management Report, a limited number of conditions precedent were defined for the realization of the merger to form Eandis Assets. If one or more of these conditions precedent have not been fulfilled by the end of 2016, this might endanger the creation of the unified distribution system operator Eandis Assets.

MAJOR EVENTS AFTER REPORTING DATE

On 25 August 2016, the regulator VREG published its decision of 24 August 2016 regarding the establishment of the tariff methodology for distribution electricity and gas for the regulatory period 2017-2020 (BESL-2016-09). In this tariff methodology a number of parameters, on which the 2017 distribution grid tariffs of the DSOs will be based, have been revised downwards compared to the tariff methodology 2015-2016.

OUTLOOK

On 3 October 2016, amendments to the articles of association of both Eandis Assets and Eandis System Operator will be submitted for approval to their respective Extraordinary General Assembly.

These amendments are related to the merger operation to form Eandis Assets and the entry of the selected private partner in Eandis Assets.

Eandis expects – after the fulfilment of the remaining conditions precedent – that the closing of the merger of the former DSOs to create Eandis Assets and the entry of State Grid Europe Limited into Eandis Assets will take place by the end of 2016, and at the latest in early 2017.

Barring unforeseen economic or regulatory developments, Eandis also expects that in the second half of 2016 there will be no substantial deviations from the defined financial and budgetary objectives. The company will continue to closely monitor all relevant financial, economic and regulatory developments, particularly the activities carried out by VREG for the establishment of the DSOs' allowable income electricity and gas for 2017.

Management expects to be able to continue to keep the Eandis Economic Group's manageable costs and its overall and company specific risks strictly under control.

REPORTING STATUS

These condensed financial statements for the period ended 30 June 2016 were approved for publication by Eandis's Board of Directors on 31 August 2016.

On 31 August 2016 Eandis's statutory auditor EY Bedrijfsrevisoren, represented by Mr Paul Eelen, issued a report on the limited review of the consolidated half-year financial information for the six-month period ended 30 June 2016, stating that the interim financial information in all material aspects has been prepared in accordance with IAS 34, "Interim Financial Reporting" as approved for application within the European Union.

STATEMENT BY THE RESPONSIBLE PERSONS

The undersigned persons state that, to the best of their knowledge,

- *the condensed interim financial statements of Eandis cvba and its subsidiaries as of 30 June 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS), and give a true and fair view of the assets and liabilities, financial position and results of the whole of the companies included in the consolidation; and*
- *the interim management report gives a fair overview of the information required to be included herein.*

Melle, 31 August 2016,

Walter VAN DEN BOSSCHE, CEO

David TERMONT, CFO

PROFILE OF THE REPORTING ENTITY

Eandis System Operator cvba and its consolidated subsidiaries De Stroomlijn cvba, Atrias cvba and Synductis cvba (together the 'Eandis Group' or the 'Group') is the independent company that carries out operational tasks and public service obligations for electricity and gas at cost price for the distribution system operators Eandis Assets. Eandis Assets is the mission entrusted company created by the merger of the former distribution system operators Gaselwest, IMEA, Imewo, Intergem, Iveka, Iverlek and Sibelgas.

Due to the principle of 'operating at cost price', the Group's result shows no profit or loss.

ANNEX

Audit Report

Condensed interim IFRS financial statements for the six-month period ended 30 June 2016:

- Condensed consolidated statement of profit and loss
- Condensed consolidated statement of comprehensive income
- Condensed consolidated statement of financial position
- Condensed consolidated statement of changes in equity
- Condensed consolidated statement of cash flows
- Selected explanatory notes
- Operating in a regulated environment

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EANDIS SYSTEM OPERATOR GROUP

Condensed Consolidated Interim IFRS Financial Statements

30 June 2016

Content

Interim Financial Statements

- Condensed consolidated statement of profit and loss
- Condensed consolidated statement of comprehensive income
- Condensed consolidated statement of financial position
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Interim Financial Statements

Condensed consolidated statement of profit and loss

(In thousands of EUR)	Notes	30 June 2016	30 June 2015
Operating revenue		515.030	531.285
Revenue	1	504.816	523.284
Other operating revenue		10.214	8.001
Operating expenses		-505.460	-521.275
Changes in inventories of finished goods and raw materials		-42.530	-39.164
Cost for services and other consumables	2	-254.336	-277.701
Employee benefit expenses	3	-206.510	-203.245
Depreciation, amortization and changes in provisions		-1.869	-999
Other operational expenses		-215	-166
Result from operations		9.570	10.010
Finance income	4	54.196	54.298
Finance costs	5	-59.520	-59.351
Profit (loss) before tax		4.246	4.957
Income tax expenses	6	-4.246	-4.957
Result for the period	7	0	0

Condensed consolidated statement of comprehensive income

(In thousands of EUR)		Notes	30 June 2016	30 June 2015
Result for the period			0	0
Other comprehensive income				
Items not to be reclassified to profit or loss in subsequent periods				
Actuarial gains (losses) on long term employee benefits	18		-43.530	62.980
Actuarial gains (losses) on rights to reimbursement on long term employee benefits	18		43.530	-62.980
Net other comprehensive income not being reclassified to profit or loss in subsequent periods			0	0
Total comprehensive income for the period			0	0

Condensed consolidated statement of financial position

(In thousands of EUR)	Notes	30 June 2016	31 December 2015
Non-current assets		3.645.451	3.756.646
Intangible assets	8	963	1.204
Property, plant and equipment	9	2.007	2.512
Investments in associates and joint ventures	10	20	11
Other investments	11,20	832	919
Rights to reimbursement on post-employment employee benefits	12	370.737	331.250
Long term receivables	13	3.270.892	3.420.750
Current assets		624.065	449.949
Inventories		43.246	45.316
Short term receivables, other	13	150.000	0
Trade and other receivables	14,20	306.060	255.506
Receivables cash pool activities	15	121.791	145.492
Cash and cash equivalents	20	2.968	3.635
TOTAL ASSETS		4.269.516	4.206.595
EQUITY	16	1.099	1.099
Equity attributable to owners of the parent		1.006	20
Share Capital, share premium, reserves and retained earnings		1.006	20
Non-controlling interest		93	1.079
LIABILITIES		4.268.417	4.205.496
Non-current liabilities		3.616.667	3.726.010
Interest bearing loans and borrowings	17, 20	3.245.930	3.394.760
Employee benefit liability	18	370.737	331.250
Current liabilities		651.750	479.486
Interest bearing loans and borrowings	17, 20	261.345	225.238
Trade payables and other current liabilities	19	326.873	236.859
Liabilities cash pool activities	15	54.797	11.400
Current tax liabilities		8.735	5.989
TOTAL EQUITY AND LIABILITIES		4.269.516	4.206.595

Condensed consolidated statement of changes in equity

(In thousands of EUR)	Share capital	Reserves	Retained earnings	Equity attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 January 2015	18	2	0	20	1.079	1.099
Result for the period	0	0	0	0	0	0
Other comprehensive income	0	0	0	0	0	0
Subtotal	0	0	0	0	0	0
Balance at 30 June 2015	18	2	0	20	1.079	1.099
Balance at 1 January 2016	18	2	0	20	1.079	1.099
Change in consolidation scope	897	70	19	986	-986	0
Result for the period	0	0	0	0	0	0
Other comprehensive income	0	0	0	0	0	0
Subtotal	897	70	19	986	-986	0
Balance at 30 June 2016	915	72	19	1.006	93	1.099

Condensed consolidated statement of cash flows

(In thousands of EUR)	Notes	30 June 2016	30 June 2015
Result for the period	7	0	0
Amortization of intangible assets		242	248
Depreciation on property, plant and equipment		488	743
Impairment on current assets (Reversal-; Recognition +)		1.140	8
Gain or loss on realization receivables		27	34
Net finance expense		5.324	5.052
Gain or loss on sale of property, plant and equipment		23	0
Income tax expense (income)	6	4.246	4.957
Operating cash flow before changes in working capital and provisions for employee benefits		11.490	11.042
Change in inventories		2.070	-9.856
Change in trade and other receivables		-26.697	648.155
Change in trade payables and other current liabilities		65.114	118.143
Net operating cash flow		40.487	756.442
Interest paid		-33.425	-33.594
Interest received		28.961	29.292
Financial discount on debts		143	279
Income tax paid	6	-1.500	-1.671
Net cash flow from/used in operating activities		46.156	761.790
Proceeds from sale of property, plant and equipment		10	0
Purchase of intangible assets		0	-68
Purchase of property, plant and equipment		-17	-82
Purchase of financial assets		-9	0
Proceeds from sale of other investments		156	140
Net investment in other long term receivables		-143	2
Net cash flow used in investing activities		-3	-8
Proceeds from short term loans and borrowings		-113.918	159.680
Change in cash pool		67.098	-918.921
Net cash flow from/used in financing activities		-46.820	-759.241
Net increase/decrease in cash		-667	2.541
Cash and cash equivalents - at beginning of period		3.635	8.906
Cash and cash equivalents - at end of period		2.968	11.447

Selected explanatory notes

Corporate information

Eandis System Operator, formerly Eandis, a limited liability partnership ('coöperatieve vennootschap met beperkte aansprakelijkheid'/'société coopérative à responsabilité limitée'), is registered in Belgium, at Brusselsesteenweg 199, 9090 Melle. It is registered under number 0477.445.084 in the central enterprise register of Ghent (department Ghent). Eandis and its subsidiaries De Stroomlijn cvba, Atrias cvba and SYNDUCTIS cvba together form the 'Group'.

On 1 January 2016 the name of Eandis cvba was changed into Eandis System Operator (ESO) cvba but its alias remains 'Eandis'.

Also on 1 January 2016, the activities and employees of the subsidiary Indexis cvba were incorporated by Eandis. Within Eandis, this merger acquisition leads to a capital increase of the current capital of 19 k EUR to 915 k EUR.

The shareholder of Eandis is Eandis Assets. This company is – subject to the fulfilment of a number of conditions precedent – resulting from the merger of the seven former Distribution System Operators (DSOs) in the Flemish region Gaselwest, IMEA, Imewo, Intergem, Iveka, Iverlek and Sibelgas, that are distributing both electricity and gas to the end customer.

The main role of Eandis is limited to the development, the operation and the maintenance for the Flemish DSOs of the low voltage and mid voltage distribution networks for electricity, as well as their low pressure and mid pressure distribution networks for gas. The grid assets themselves remain owned by the DSOs that are also the holders of the electricity and gas distribution system operator licences granted by the Flemish energy regulatory authority, VREG.

Eandis System Operator 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 4.480 persons during 2015. The company carries out its operational activities at cost price without charging any commercial margin to the Distribution System Operators. This means that all costs incurred are passed through to the DSOs according to fixed allocation rules. Each month Eandis System Operator invoices each of the DSOs for the operational services rendered. The result of the Group is without profit or loss.

The DSOs have appointed Eandis as their operating company.

The Flemish energy regulator (VREG) decided in 2015 to grant permission to the distribution system operators Gaselwest, IMEA, Imewo, Intergem, Iveka, Iverlek and Sibelgas to call on the services of the operating company Eandis for electricity and gas distribution. This authorisation shall apply from 5 September 2014 for electricity and from 14 October 2015 for gas for a period of twelve years.

For more information, visit our website www.eandis.be

The rating agency Moody's Investors Service Ltd. ('Moody's') granted Eandis in October 2011 an 'A1' credit rating (negative outlook), which was reconfirmed on 5 July 2016. This allows Eandis to issue bond loans on the international financial markets.

Eandis successfully issues bond loans in the framework of its 5 billion Euro Medium Term Notes (EMTN)-programme. All funds of those loans are fully lent on to the DSOs, shareholders, at conditions identical to those governing the issued bond loans. The resulting receivable for the Group is recorded as 'Long and short term receivables'.

These condensed consolidated interim financial statements for the six months ended 30 June 2016 were approved for publication by the Board of Directors on 31 August 2016 and have been audited.

Significant accounting policies

1. Statement of compliance

These condensed consolidated interim IFRS statements for the six-month period ended 30 June 2016 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 financial statements of the Group for the year ended on 31 December 2015.

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 2015 except for the new standards or interpretations in force since 1 January 2016.

The new standards and interpretations applicable from 1 January 2016 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 2016 were the following:

- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities*: Applying the Consolidation Exception, effective 1 January 2016 but not yet endorsed by the EU
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, effective 1 January 2016 but not yet endorsed by the EU
- Amendments to IFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*, effective 1 January 2016
- IFRS 14 *Regulatory Deferral Accounts*, effective 1 January 2016 but not yet endorsed by the EU
IFRS 14 is an optional standard that allows an entity whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.
- Amendments to IAS 1 *Presentation of Financial Statements* – Disclosure Initiative, effective 1 January 2016

- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Clarification of Acceptable Methods of Depreciation and Amortisation, effective 1 January 2016
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* – Bearer Plants, effective 1 January 2016
- Amendments to IAS 27 *Separate Financial Statements* – Equity Method in Separate Financial Statements, effective 1 January 2016
- Annual Improvements to IFRSs - 2012-2014 Cycle (Issued September 2014), effective 1 January 2016

The Group has chosen not to early adopt standards, interpretations or amendments that were published but were not yet effective.

The Group will apply the new standards and interpretations applicable to its financial statements as soon as they become effective.

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 2015.

Comments to the financial statements

1. Operating revenue

The operating revenue decreases with 18.468 k EUR compared to the first six months of 2015 and amounts to 504.816 k EUR.

Revenue reflects the costs that are passed on mainly to the distribution system operators, shareholders.

2. Cost for services and other consumables

The cost for services and other consumables amount to 254.336 k EUR at the end of June 2016 and 277.701 k EUR in the first six months of 2015. The decrease of 23.365 k EUR is mainly due to the decrease in the cost for contractors – as a consequence of the decreasing trend in grid investments -and the costs of consultancy.

The cost for the rational use of energy (RUE) increases slightly from 37.498 k EUR in June 2015 to 39.674 k EUR in June 2016.

3. Employee benefit expenses

For the first half of 2016, the employee benefit expenses amount to 206.510 k EUR and 203.245 k EUR at 30 June 2015. This small increase is due to the increase of the fair value correction on the defined benefit obligations.

4. Financial income

Financial income amounts to 54.196 k EUR at 30 June 2016 and 54.298 k EUR on end June 2015. This item contains the interest to be received on loans granted to the distribution system operators (2016: 53.927 k EUR; 2015: 53.774 k EUR).

A financial income of 69 k EUR was registered during 2016 as a result of the sale of a business centre. During 2015 an income of 127 k EUR was realized on the sale of a participation (see also note 'Other investments').

5. Financial costs

The financial costs amount to 59.520 k EUR at the end of June 2016 and 59.351 k EUR at 30 June 2015. These costs contain the provisions for interest payable on the bond loans (2016: 53.927 k EUR; 2015: 53.758 k EUR), interest paid on other financial obligations with banks and cash pool activities with the DSOs.

The other financial costs comprise various bank costs, the recording by instalments of cost for issuance of debenture loans (issuance and maintenance fee on the EMTN programme – see note 'Loans on long and short term'), interest costs on renting and defined benefit obligations.

6. Income tax expenses

The income tax expenses amount 4.246 k EUR at the end of June 2016 and 4.957 k EUR at the end of June 2015. This decrease is the result of lower disallowed expenses, basis for the calculation of the taxes. An amount of 1.500 k EUR was prepaid to the tax authorities.

7. The **result** is always without any profit or loss

8. Intangible assets

The Group reports intangible assets for 963 k EUR at the end of June 2016, a decrease of 241 k EUR compared to 31 December 2015.

This decrease is the result of the amortisation. The intangible assets contain merely software licenses.

9. Property, plant and equipment

Property, plant and equipment decrease from 2.512 k EUR at the end of December 2015 to 2.007 k EUR at the end of June 2016 mainly due to depreciation.

10. Investments in associates and joint ventures

These investments amount to 20 k EUR at the end of June 2016, an increase of 9 k EUR compared to 31 December 2015.

11. Other investments

The other investments decrease from 919 k EUR at the end of December 2015 to 832 k EUR at the end of June 2016. This decrease is the result of the sale of the business centre which resulted in a gain of 69 k EUR (see note 'Financial income').

The other investments comprise the participations still held by the Group in the business centres situated in the distribution area of Gaselwest and Imewo.

12. Rights to reimbursement on long term employee benefits

The rights to reimbursement on long term employee benefits increase from 331.250 k EUR at the end of December 2015 to 370.737 k EUR at the end of June 2016. This increase of 39.487 k EUR is the result of the increase in the employee benefit liability with the same amount (see note 'Employee benefit liabilities').

13. Short and long term receivables, other

The short and long term receivables mainly contain the receivable from the distribution system operators that originates from lending on funds that were obtained by Eandis from the issuance of the bonds (stand alone, retail and EMTN) since 2010.

The loans issued by the Group are lent on to the distribution system operators at the same conditions as the loans obtained by Eandis (see note 'Interest bearing loans and borrowings').

The long term receivables decreased from 3.420.757 k EUR at the end of December 2015 to 3.270.500 k EUR at the end of June 2016 because of the transfer of a loan of 150.000 k EUR to short term since it becomes refundable at short term (June 2017).

14. Trade and other receivables

The trade and other receivables amount to 306.060 k EUR at the end of June 2016 and 255.506 k EUR at the end of December 2015.

The trade receivables amount to 180.830 k EUR at the end of June 2016 which represents an increase of 22.806 k EUR in comparison with December 2015. This increase is due to the outstanding amount with the DSOs (2016: 147.838 k EUR; 2015: 122.151 k EUR) offset by impairments on trade receivables (2016: 3.455 k EUR; 2015: 2.316 k EUR).

The other receivables amount to 125.230 k EUR at the end of June 2016 and mainly contain accrued interests on the loans to the DSOs (2016: 56.457 k EUR; 2015: 31.448 k EUR) and a receivable from the VAT-unit (2016: 41.157 k EUR; 2015: 41.512 k EUR).

15. Receivables and liabilities cash pool activities

The receivable on the distribution system operators amounts to 121.791 k EUR at June 2016 (145.492 k EUR at year end 2015) and the payable amounts to 54.797 k EUR (11.400 k EUR at year end 2015).

16. Equity

Shareholders' equity remained unchanged at 1.099 k EUR compared to the end of December 2015. Nevertheless, on the one hand the capital and reserves increase with 986 k EUR but on the other hand the minority interest decreases with that same amount. This movement is the result of the merger by acquisition of Indexis cvba, formerly a subsidiary of Eandis.

On 1 January 2016 the activities and the staff of Indexis were incorporated by Eandis. Eandis owned 70% of the shares of Indexis. The non-controlling interest in Indexis, held by Ores, was then transferred to the DSOs.

The merger is part of a reorganization of the energy market, in which the distribution system operators of Eandis, Infrax, ORES, Sibelga and RESA want to establish a federal clearing house together with the energy suppliers. Therefore, the company Atrias was founded by the distribution system operators.

The activities of Indexis overlapped with those of Atrias. Partly due to the introduction of an important application at Ores, the Indexis application will be used exclusively by and for Eandis. Therefore it was decided that Eandis would merge with Indexis. Consequently, all the assets and

liabilities were merged into Eandis at 1 January 2016 but excluding the French-speaking staff who transferred to Ores, but are seconded to Eandis.

Due to the specific structure of Indexis (costs are fully recharged), the value of the company is determined based on the net asset value:

(In thousands of EUR)	Indexis
Share Capital	3.216
Reserves	6
Retained earnings	65
Equity attributable to owners of the parent at 1 January 2016	3.287

The transaction resulted in an increase of capital with 897 k EUR by creating 16.840.673 shares and a share premium of 68 k EUR which was included as a reserve.

Also as a result of this transaction, the non-controlling interests of 1.079 k EUR dropped to 93 k EUR. It consists now of the non-controlling interest held by third parties in De Stroomlijn.

Hereunder the detail of balance sheet of Indexis as at 31 December 2015:

(In thousands of EUR)	Indexis
Intangible assets	99
Property, plant and equipment	1.334
Current receivables: trade and other receivables	6.459
Cash and cash equivalents	105
Total assets	7.997
Equity	3.287
Current liabilities: trade payables	1.255
Current liabilities: taxes, remuneration and social security	1.069
Current liabilities: other liabilities	2.385
Total liabilities	7.997

Hereunder the detail of the statement of profit and loss of Indexis as at 31 December 2015:

(In thousands of EUR)	Indexis
Operating revenue	19.954
Operating expenses	19.851
Financial income and expenses	16
Income tax	86
Result for the period	0

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

(In thousands of EUR)	30 June 2016	31 December 2015
Loans, non-current	3.245.930	3.394.760
Commercial paper	78.000	166.800
Bank debts	33.320	58.438
Current portion of long term loans	150.025	0
Loans, current	261.345	225.238
Total	3.507.275	3.619.998

Long term loans

This item contains the bond loans and private placements issued since 2010.

The decrease of 148.830 k EUR compared to 31 December 2015 is due to the transfer of 150.025 k EUR to the item 'Current portion of long term loans' since a bond loan expires in 2017 and to the recording of the agio/disagio spread over the term of the bond loan.

The bond issues are mainly carried out in the framework of the EUR 5 billion EMTN programme. Eandis obtained in this context an 'A1' rating (negative outlook) from Moody's Investors Services in October 2011. The rating was confirmed by Moody's on 7 January 2016 and on 5 July 2016.

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 and have a fixed interest rate.

For all the bond loans, each of the Flemish DSOs (shareholders of the Group) is guarantor on a several but non-joint basis, but limited to its proportional share in the capital of Eandis System Operator.

All funds of those loans are fully lent on to the distribution system operators at the conditions governing the issued bond loans. The resulting receivable for the Group is recorded as 'Long term receivables, other' or 'Short term receivable, other' depending the maturity term.

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

During the first half of 2016 no new bonds were issued.

The capital of the debenture is repayable at maturity.

In the framework of the 5 billion euro EMTN programme an amount of 2.260.500 k EUR or 53,21 % has been issued until 30 June 2016 (unchanged compared to year end 2015).

Loans, current

This item contains the current portion of the long term loans (150.025 k EUR at the end of June 2016; 0 k EUR at the end of December 2015) and the bank loans on short term.

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	(2)	522.000	78.000	444.000	0,06%
Fixed advances		200.000	0	200.000	N/A
Fixed loans / Bank overdraft (1)	Daily	200.000	33.320	166.680	0,50%
Fixed loans		100.000	0	100.000	N/A
Total at 30 June 2016		1.022.000	111.320	910.680	
Commercial paper	(3)	522.000	166.800	355.200	0,09%
Fixed advances		200.000	0	200.000	N/A
Fixed loans / Bank overdraft (1)	Daily	200.000	58.438	141.562	0,70%
Fixed loans		100.000	0	100.000	N/A
Total at 31 December 2015		1.022.000	225.238	796.762	

(1) The average interest rate of the used amounts at the end of the period

(2) 10.000 k EUR at 13/7/2016; 58.000 k EUR at 22/7/2016 and 10.000 k EUR at 27/7/2016

(3) 65.000 k EUR at 18/1/2016 and 101.800 k EUR at 29/1/2016

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

(In thousands of EUR)	30 June 2016	31 December 2015
Opening amount as at 1 January	3.619.998	3.392.363
Change in long term loans	1.195	2.397
Repayment of long term loans	0	0
Proceeds of short term loans	111.320	225.238
Repayment of short term loans	-225.238	0
Total	3.507.275	3.619.998

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

18. Employee benefit liabilities

The employee benefit liabilities increase from 331.250 k EUR at the end of December 2015 to 370.737 k EUR at the end of June 2016. This increase is mainly explained by the change of the assumptions, the decrease of the discount rate because of the volatility in the financial markets

partly caused by the referendum in the UK, at the end of June 2016 to exit the European Union (Brexit) and the inclusion of the defined contribution plans (DC) from 2016.

Due to the declining level of the interest rates of the bonds, pension institutions, managing the DC-plans, faced the challenge to continue to cover the level of the guaranteed interest rates. A reform was imposed and was announced with the publication on 24 December 2015 of the Act of 18 December 2015 guaranteeing the sustainability and the social character of supplementary pensions and strengthening the complementary nature with respect to the retirement pension plans. This law entered into force on 1 January 2016.

The amendment implies that the DC pension plans are to be valued as from 1 January 2016 according to the Projected Unit Credit (PUC) method without projection of future contributions. Until 2015 the intrinsic valuation method was applied. The impact of this change is considered to be immaterial.

The guaranteed interest used for 2016 amounts to 1,75 % and is applied according to the vertical method for all contributions paid to the pension funds and in the insurance company (Tak 21 products).

19. Trade payables and other current liabilities

The trade payables and other current liabilities amount to 326.873 k EUR at the end of June 2016 and 236.859 k EUR at the end of December 2015.

The increase of 90.014 k EUR is on the one hand due to an increase in trade payables (10.850 k EUR) and on the other hand due to an increase in other payables as additional provisions for employee benefit expenses (2016: 29.938 k EUR; 2015: 0 k EUR), accrued interest on the bond loans (2016: 56.457 k EUR; 2015: 31.431 k EUR) and the settlement of VAT within the framework of the VAT-group (2016: 33.568 k EUR; 2015: 2.826 k EUR).

20. Financial instruments: risks and fair value

Risks

Eandis manages its potential risks in a systematic way via the 'integral risk management' methodology. The Group's functioning as the operating company for the distribution system operators limits to a large degree the risks and their possible negative impact.

More detailed information about the risks of the Group and its shareholders is included in the IFRS consolidated financial statements of 31 December 2015, the prospectus of 25 November 2014 concerning the guaranteed Euro Medium Term Note programme and the investor presentation of June 2016. These documents can be consulted on the Eandis website 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.

(In thousands of EUR)	30 June 2016	31 December 2015
Other investments	987	1.134
Cash and cash equivalents	2.968	3.635
Total	3.955	4.769
Loans on long term	3.783.865	3.741.669
Loans on short term	266.851	225.238
Total	4.050.716	3.966.907

Fair value hierarchy

The fair value of the loans is disclosed at level 1. This means that the valuation is based on quoted prices in an active market. The fair value of the unquoted loans (private placements) is their nominal value.

The fair value of the quoted bonds, issued for a total amount of 2.980.500 k EUR, varies according to the market interest rate. The fair value at 30 June 2016 amounts to 3.499.400 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.

21. Related parties

The nature of the transactions with the Management Committee, the directors and other related parties during the first half of 2016 do not substantially differ from the transactions included in the annual report of 2015.

22. Events after the reporting date

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 2016.

Report of the statutory auditor to the shareholders of Eandis System Operator CVBA on the review of the interim condensed consolidated financial statements as of 30 June 2016 and for the 6 month period then ended

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Eandis System Operator CVBA (the "Company"), and its subsidiaries as at 30 June 2016 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 € 4.269.516 thousand and a net result for the six month period then ended of € 0. 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.

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.

Report of the statutory auditor dated 31 August 2016 on the interim condensed consolidated financial statements of Eandis System Operator CVBA for the 6 month period ended 30 June 2016 (continued)

Ghent, 31 August 2016

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



Paul Eelen
Partner*

* Acting on behalf of a BVBA/SPRL

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