ECONOMIC GROUP EANDIS

Condensed Consolidated Interim IFRS Financial Statements

30 June 2016

Content

Interim Financial Statements

Interim Financial Statements

Condensed consolidated statement of profit and loss

(In thousands of EUR)	Notes	30 June 2016	30 June 2015
Operating revenue		**1.409.838**	**1.313.807**
Revenue	1	1.249.707	1.144.327
Other operating income		26.910	26.759
Own construction, capitalized		133.221	142.721
Operating expenses		**-1.122.924**	**-1.015.910**
Cost of trade goods	2	-490.349	-466.107
Cost for services and other consumables	3	-160.810	-218.718
Employee benefit expenses	4	-206.529	-203.263
Depreciation, amortization, impairments and changes in provisions	5	-163.052	-163.411
Other operational expenses		-24.866	-32.845
Regulated transfers	6	-77.318	68.434
Result from operations		**286.914**	**297.897**
Finance income	7	1.278	19.827
Finance costs	8	-116.371	-93.415
Profit before tax		**171.821**	**224.309**
Tax expenses	9	-53.284	-81.462
Profit for the period		**118.537**	**142.847**

Condensed consolidated statement of comprehensive income

(In thousands of EUR)	Notes	30 June 2016	30 June 2015
Profit for the period		**118.537**	**142.847**
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods			
Actuarial gains (losses) on long term employee benefits	17	-43.530	62.980
Deferred tax gains (losses)	9	21.580	-14.592
Net other comprehensive income not being reclassified to profit or loss in subsequent periods		**-21.950**	**48.388**
Total comprehensive income for the period		**96.587**	**191.235**

Condensed consolidated statement of financial position

(In thousands of EUR)	Notes	30 June 2016	31 December 2015
Non-current assets		**7.891.649**	**7.908.256**
Intangible assets	10	101.697	105.586
Property, plant and equipment	11	7.787.841	7.800.585
Investments in associates and joint ventures	12	20	11
Other investments	13	832	919
Long term receivables		1.259	1.155
Current assets		**1.836.338**	**1.814.932**
Inventories		43.246	45.316
Trade and other receivables	14	1.790.104	1.765.960
Cash and cash equivalents		2.988	3.656
TOTAL ASSETS		**9.727.987**	**9.723.188**
EQUITY	**15**	**2.031.408**	**1.977.198**
Total equity attributable to owners of the parent		**2.031.315**	**1.976.119**
Capital		1.262.948	1.278.688
Reserves		755.150	759.548
Other components of equity		-673.381	-651.430
Retained earnings		686.598	589.313
Non-controlling interest		**93**	**1.079**
LIABILITIES		**7.696.579**	**7.745.990**
Non-current liabilities		**5.853.946**	**6.027.245**
Interest bearing loans and borrowings	16	4.994.272	5.197.393
Employee benefit liability	17	370.737	331.250
Derivative financial instruments	18	167.583	145.715
Provisions	19	16.062	18.027
Deferred tax liability	9	305.292	334.860
Current liabilities		**1.842.633**	**1.718.745**
Interest bearing loans and borrowings	16	938.122	963.796
Trade payables and other current liabilities	20	737.261	647.471
Current tax liabilities	21	167.250	107.478
TOTAL EQUITY AND LIABILITIES		**9.727.987**	**9.723.188**

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 2015	**2.056.752**	**679.802**	**-699.505**	**570.241**	**2.607.290**	**1.079**	**2.608.369**
Total comprehensive income for the period	0	0	48.388	142.847	**191.235**	0	**191.235**
Share capital decrease	-885.798	0	0	0	**-885.798**	0	**-885.798**
Share capital increase	117.734	0	0	0	**117.734**	0	**117.734**
Addition/decrease reserves	0	19.465	0	-19.465	**0**	0	**0**
Dividends paid	0	0	0	-21.511	**-21.511**	0	**-21.511**
Balance at 30 June 2015	**1.288.688**	**699.267**	**-651.117**	**672.112**	**2.008.950**	**1.079**	**2.010.029**
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**
Settlement of non-controlling interest	0	0	0	0	**0**	-986	**-986**
Settlement/exit 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**

The above information is disclosed in the notes 'Equity' and in regard to ‘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 2016	30 June 2015
Profit for the period		118.537	142.847
Amortization of intangible assets	5	22.092	22.289
Depreciation on property, plant and equipment	5	141.815	145.166
Change in provisions (Reversal -; Recognition +)	5	-1.965	-366
Impairment current assets (Reversal -; Recognition +)	5	1.110	-3.678
Gains or losses on realization receivables		3.315	6.387
Net finance costs		93.225	91.867
Change in fair value of derivative financial instruments		21.868	-18.279
Gains or losses on sale of property, plant and equipment		19.161	25.409
Income tax expense	9	53.284	81.462
Operating cash flow before change in working capital and provisions for employee benefits		**472.442**	**493.104**
Change in inventories		2.070	-9.855
Change in trade and other receivables		-27.637	736.628
Change in trade payables and other current liabilities		50.958	102.810
Change in employee benefits		-4.043	-14.802
Net operating cash flow		**21.348**	**814.781**
Interest paid		-54.477	-59.949
Interest received		81	397
Financial discount on debts		236	398
Income tax paid	9	-1.500	-1.948
Net cash flow from operating activities		**438.130**	**1.246.783**
Proceeds from sale of property, plant and equipment		9.254	387
Purchase of intangible assets		-18.203	-18.155
Purchase of property, plant and equipment		-157.486	-183.869
Net investments	12	-9	0
Proceeds from sale of other investments	13	156	140
Net investments in long term receivables		-143	2
Net cash flow used in investing activities		**-166.431**	**-201.495**
Proceeds from issue of shares		0	117.734
Repayment of share capital	15	-40.619	-885.798
Repayment of borrowings	16	-116.072	-413.285
Change in current liabilities	16	-113.918	159.680
Dividends paid	15	-1.758	-21.078
Net cash flow from/used in financing activities		**-272.367**	**-1.042.747**
Net increase/decrease in cash		**-668**	**2.541**
Cash and cash equivalents at the beginning of period		**3.656**	**8.913**
Cash and cash equivalents at the end of period		**2.988**	**11.454**

Selected explanatory notes

Corporate information

The consolidated financial statements of the Economic Group Eandis comprise beside the accounts of Eandis Assets, the accounts of the subsidiaries being the operating company Eandis System Operator cvba (previously Eandis cvba) and its subsidiaries De Stroomlijn cvba, Atrias cvba and SYNDUCTIS cvba.
Eandis Assets is – subject to the fulfilment of a number of conditions precedent – resulting from the merger of the seven former distribution system operators (DSOs) Gaselwest, IMEA, Imewo, Intergem, Iveka, Iverlek and Sibelgas.
See further information about the changes in the shareholder structure in the notes 'Important events during the reporting period'.

The DSOs are being managed centrally by their operating company Eandis System Operator (previously Eandis cvba).

The statutory aim of the DSOs is the distribution system operation as understood by the Flemish Energy Decree and their execution resolutions, as well as carrying out each peripheral activities, 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 chapter 'Operating in a regulated environment'.
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 offers support at cost price aiming at planning and implementing efficient measures and projects for energy saving and energy efficiency.
Since 2014, the development, construction and operation of district heating grids and the delivery of heat have been added to the portfolio of services.

The DSOs are mission charged associations according to the provisions of the Flemish Decree on Intermunicipal Cooperation (6 July 2001, 25 April 2014 and 13 May 2016).

Since 2015, the DSOs are no longer subject to legal entity tax but to corporate income tax. This change has an impact on the shareholders' equity and profit as deferred taxes are being recognized as from 2014.

All companies of the Group are registered in Belgium.

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

Eandis System Operator cvba is active in 229 cities and municipalities and 4 municipalities of the Walloon region. The Group employed on average 4.480 persons during 2015.

These condensed consolidated interim financial statements for the six months ended 30 June 2016 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**

Revenue increases from 1.144.327 k EUR in June 2015 to 1.249.707 k EUR in June 2016.
From 1 January 2015, the new tariff methodology of the VREG has been applied including the amendment of 2016, implying an increase in revenue (see note ‘Operating in a regulated environment’).
The own construction capitalized decreases from 142.721 k EUR on 30 June 2015 to 133.221 k EUR on 30 June 2016 due the downward trend of the level of the investment activities.

2. **Cost of trade goods**

The cost of trade goods increases by 24.242 k EUR compared to June 2015 up to 490.349 k EUR.
This increase mainly concerns the cost of green energy certificates and cogeneration certificates but also the cost of purchase for grid losses.

3. **Cost for services and other consumables**

The cost for services and other consumables amounts to 160.810 k EUR, a decrease of 57.908 k EUR compared to June 2015.
This decrease is due to discontinuation of the contribution ‘100 kWh free of charge’ at the end of 2015 (2016:15 k EUR; 2015: 52.002 k EUR).
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.

4. **Employee benefit expenses**

For the first half of 2016, the employee benefit expenses amount to 206.529 k EUR, an increase of 3.266 k EUR compared to June 2015. This slight increase is due to the increase of the fair value correction of the pension contributions.

5. **Amortization, depreciation, impairment and changes in provisions**

The amortization of intangible assets and the depreciation of property, plant and equipment amount to 163.907 k EUR at the end of June 2016 and 167.455 k EUR at 30 June 2015.
The impairment on trade receivables amount to 1.110 k EUR (2015: write back 3.678 k EUR) and the changes in provisions concern write backs for 1.965 k EUR at the end of June 2016 and 366 k EUR at the end of June 2015.

6. **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.
The amounts of the regulatory assets/liabilities, built up over 2008 and 2009, will be recovered during the period 2015-2016. At the end of June 2016, an amount of 26.871 k euro had already been recovered.
Likewise in 2016, 20 % of the regulatory assets/liabilities built up over the period 2010 to 2014 can be recovered. At the end of June 2016, an amount of 40.436 k EUR had already been recovered.
Additional regulatory balances are recorded for the period up to the end of June 2016 for an amount of 10.011 k EUR (2015: 95.297 k EUR) - (see note ‘Work in a regulated environment’).

7. **Financial income**

The financial income decreases from 19.827 k EUR in June 2015 to 1.278 k EUR in June 2016.
At the end of June 2015, an amount of 18.279 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 (69 k EUR) and during 2015 an income from the sale of a participation was recorded of 127 k EUR (see note 'Other investments').

8. **Financial costs**

The financial costs increase with 22.956 k EUR from 93.415 k EUR in the period up to June 2015 to 116.371 k EUR in June 2016.
In 2015 a positive result was recorded in the fair value adjustment for derivative financial instruments. As the interest rate decreased in the first half of 2016, a cost was now processed in the financial costs.
Additional interest charges were recorded on defined benefit obligations, as well as on the costs of debt and various bank charges.

9. **Tax expenses**

The tax expenses amount to 53.284 k EUR at the end of June 2016, a decrease of 28.178 k EUR in comparison with the end of June 2015.
This cost consists of current income tax expenses and the deferred income taxes.

(In thousands of EUR)	30 June 2016	30 June 2015
Current income tax expenses - paid	-1.500	-1.646
Current income tax expenses - estimated	-59.773	-59.305
Deferred income tax benefits (+)/expenses	7.989	-20.511
Total tax expenses	**-53.284**	**-81.462**

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 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 61.273 k EUR at 30 June 2016 (60.951 k EUR at 30 June 2015), an increase of 322 k EUR.

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 will be requested from the 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.
Concerning the impairment losses of trade receivables the deduction of the recorded provision for doubtful debts as at 31 December 2014 as deductible costs in the income tax declaration of the tax years 2016 up to 2019 will be requested.
It is based on the principle as defined in the aforementioned Programme Act and amended on 10 August, 2015, article 92, 4° that the provision for impairment losses that are recorded during the period the company was subject to legal entity tax, is deductible as a professional cost to the extent that the conditions laid down in article 49 of the Code of the Income Tax of 1992 are fulfilled.
The total amount of impairment amounted to 77.109 k EUR at 31 December 2014 and will, in the case of a positive decision by the Ruling Commission, be processed for the first time at 25,00 % in the tax assessment of the year 2016.

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 2015
Property, plant & equipment	-551.266	-558.704
Derivative financial instruments	53.884	49.364
Employee benefit liabilities	172.606	170.692
Provisions, rehabilitation gas sites	1.006	1.617
Provisions, other	2.098	2.171
Impairment on trade receivables	16.381	0
Net deferred tax asset/(liability)	**-305.291**	**-334.860**

The movements in the profit and loss account and the equity in June 2016 and June 2015 are as follows:

	30 June 2016		30 June 2015	
(In thousands of EUR)	Movements via P&L	Movements via OCI	Movements via P&L	Movements via OCI
Property, plant & equipment	0	7.438	0	6.815
Derivative financial instruments	4.520	0	-11.333	0
Employee benefit liabilities	-12.228	14.142	-9.054	-21.407
Provisions, rehabilitation gas sites	-611	0	-124	0
Provisions, other	-73	0	0	0
Impairment on trade receivables	16.381	0	0	0
Deferred tax benefit/(expense)	**7.989**	**21.580**	**-20.511**	**-14.592**

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 551.266 k EUR (558.704 k EUR in December 2015) 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 172.606 k EUR (170.692 k EUR in December 2015).
The net deferred tax liability is composed as follows:

(In thousands of EUR)	30 June 2016	31 December 2015
Deferred tax asset	245.975	223.844
Deferred tax liabilty	-551.266	-558.704
Deferred tax liability, net	**-305.291**	**-334.860**

10. **Intangible assets**

The intangible assets decrease from 105.586 k EUR at the end of December 2015 to 101.697 k EUR at the end of June 2016 due to the amortization and the low acquisitions.

The additions relate to investments for the 'smart projects' and district heating. During the first half of 2016, the additions amounted to 18.203 k EUR and to 18.155 k EUR during the first half of 2015.

11. **Property, plant and equipment**

Property, plant and equipment decreased with 12.744 k EUR to reach 7.787.841 k EUR by the end of June 2016.
The acquisitions during the first six months of 2016 amount to 157.486 k EUR compared to 183.869 k EUR during the first six months of 2015. This decrease is the result of lower investments for the low and mid voltage networks and low and mid pressure networks (-18.845 k EUR and -10.070 k EUR respectively).

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

12. **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.

13. **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.

14. **Trade and other receivables**

Trade and other receivables amount to 1.790.104 k EUR at 30 June 2016 and 1.765.960 k EUR at 31 December 2015.
The impairment on trade receivables amounts 76.807 k EUR at 30 June 2016 and 75.763 k EUR on 31 December 2015.
The other receivables include the green energy certificates (GEC) and cogeneration certificates (CGC) for an amount of 661.393 k EUR (627.085 k EUR in December 2015). Due to the application of the 'banking principle', being the temporary immobilization until 1 July 2016 of the surplus certificates with a guarantee by the Flemish Region for a certain number of certificates to be sold at an agreed price, and due to the permanent purchase of certificates, this item is increasing further. On the other hand, the certificates are offered for sale at quarterly intervals on the market.
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'.
During the first half of 2015, 202.550 GEC and 2.200.000 CGC were sold. The total income amounted to 61.910 k EUR. The GEC were sold at an average price of 88,32 EUR (certificates valued at 88,00 EUR) and the CGC at an average price of 20,00 EUR (measured at 20,00 EUR).
The item 'Solidarity receivables related to GEC' decreases from 16.993 k EUR at the end of 2015 to 8.446 k EUR at end June 2016.

The ‘Transfers tariff’ also decreases from 658.965 k EUR at the end of 2015 to 581.534 k EUR at the end of June 2016 (see chapter ‘Working in a regulated environment’).

15. **Total equity**

Equity amounts to 2.031.315 k EUR, an increase of 55.289 k EUR in comparison to December 2015.
This increase is due to the recording of the realized profit for the period amounting to 118.537 k EUR and an unrealized loss of 21.951 k EUR. Also a decrease of share capital was noted as a municipality and two provinces exited the DSOs.
The various components of equity and the movements are reflected in the 'Statement of changes in equity'.

Movements in the share capital:
The share capital amounts to 1.262.948.219,91 EUR at the end of June 2016 and 1.278.688.431,18 EUR at the end of 2015. The capital is fully subscribed and paid up and it represents the sum of the capital of the DSOs.

The table below shows the movements in the share capital during the first half of 2016.

Date	**Transaction**	**Amount (In thousands of EUR)**
Total at 31 December 2015		**1.278.688**
1 January 2016	Share capital decrease - exit Frasnes-lez-Anvaing	-565
30 June 2016	Share capital decrease - exit provinces Oost-Vlaanderen & Antwerpen	-15.175
Total at 30 June 2016		**1.262.948**

The adjustments to the shareholder structure lead to the exit of one of the Walloon municipalities, Frasnes-lez-Anvaing. As from 1 January 2016 it decided to exit the DSO Gaselwest and to switch to Ores, the Walloon network operator.

The final settlement is subject to the approval of the regulatory balances by the regulator and subject to the agreement of all parties involved.

(In thousands of EUR)	**Frasnes-Lez-Anvaing**
Property, plant & equipment	7.426
Current assets	45
Total assets	**7.471**
Equity	1.240
Current liabilities: trade payables	6.231
Total equity and liabilities	**7.471**

On 27 April 2016, the Flemish Government approved an adjustment to the Decree on Intermunicipal Cooperation whereby the provinces, shareholders of the DSOs, must exit no later

than the end of 2018. The provinces of Oost-Vlaanderen/East Flanders and Antwerp decided to exit on 30 June 2016 and the province of West Vlaanderen/West-Flanders will withdraw by the end of 2018.
The exit led to a decrease in equity of 38.429 k euro at 30 June 2016 and the shares, previously held by these two provinces, were destroyed.

As from 1 July 2016 the various **financing associations** of the electricity and gas sector – Figga, Finea, Fingem, Finilek, Finiwo, IKA and IBG - will participate in Eandis Assets taking into account the conditions precedent of the realization of the merger of the DSOs. The participation, for a total amount of **equity (including share premium) of 100.000 k EUR,** will be implemented by issuing B shares on name of each financing association.

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 2016.

	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

The dividend balance for 2015 amounted to 1.758 k EUR in total of which 1.035 k EUR was paid by Gaselwest, 449 k EUR by IMEA, 75 k EUR by Iverlek and 199 k EUR by Sibelgas.

Detail of **other comprehensive income:**

(In thousands of EUR)	**30 June 2016**	**31 December 2015**
Related to employee benefit liability	-184.994	-141.464
Related to deferred tax liability	-488.387	-509.967
Total other comprehensive income	**-673.381**	**-651.431**

The **non-controlling interest** decreased from 1.079 k EUR in December 2015 to 93 k EUR in June 2016 as a result of the merger by acquisition of Indexis by Eandis.
The non-controlling interest at the end of June 2016 includes the interest held by third parties in 'De Stroomlijn cvba'.

16. **Interest bearing loans and borrowings, current and non-current**

The long term and short term loans decrease with 228.794 k EUR to 5.932.394 k EUR in comparison to 31 December 2015. This decrease is the result of the repayment of the current portion of long term loans and the withdrawal on short term loans.

(In thousands of EUR)	30 June 2016	31 December 2015
Long term loans	**4.994.272**	**5.197.393**
Current portion of long term loans	826.802	738.558
Short term loans	111.320	225.238
Short term loans	**938.122**	**963.795**
Total	**5.932.394**	**6.161.189**

Long term loans

This item contains bank loans, bonds (since 2010) and private placements.

Eandis System Operator is issuer of the bond loans and private placements - carried out in the framework of the EUR 5 billion EMTN programme. It obtained in this context as from 2011 an ‘A1’ rating (with negative outlook) from Moody's Investors Services. 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.

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.

No loans were issued during the first half of 2016.

In the framework of the EUR 5 billion EMTN programme an amount of 2.660.500 k EUR or 53,21 % has already been issued (unchanged since December 2015).

Loans, current

This item contains the current portion of long term loans 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 fair value of the loans is disclosed in the note 'Financial instruments: risks and fair value'.

17. **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).

18. **Derivative financial instruments**

The fair value of the derivative financial instruments amounts to 167.583 k EUR at the end of June 2016, an increase of 21.868 k EUR compared to the end of December 2015 as a result of the decreasing interest rates.

19. **Provisions**

These provisions decrease from 18.027 k EUR at the end of 2015 to 16.062 k EUR at the end of June 2016. This slight decrease is the result of the use of provisions for the rehabilitation of various contaminated gas factory sites.

(In thousands of EUR)	Rehabilitation	Other	Total
Total as at 31 December 2015	17.688	339	18.027
Used	-1.901	-64	-1.965
Total as at 30 June 2016	**15.787**	**275**	**16.062**

Since 2014, the company has launched a number of applications for subsidies for different sites.

20. **Trade payables and other current liabilities**

The trade payables and other current liabilities have increased since the end of December 2015 with 89.790 k EUR to 737.261 k EUR at the end of June 2016.
This increase is mainly due to an increase in the outstanding VAT payable for an amount of 31.280 k EUR and the other current liabilities with 185.795 k EUR.
The item ‘other current liabilities’ primarily contains the amount of 100.000 k EUR received as upfront payment from the financing companies for the capital increase as from 1 July 2016 but partly compensated by the decrease of debts to a shareholder. This item contains the provisions for interest payable on mainly the bond loans, the provisions for personnel costs and the employee benefit expenses.
On the other hand, all other items decrease and mainly the item ‘Trade payables’ decreases with 84.925 k EUR (decrease of the 100 kWh free and the debt to a supplier) as well as the item ‘Solidarity payables relating to green energy certificates' with a decrease of 36.227 k EUR.

21. **Current tax liabilities**

The current tax liabilities increase with 59.772 k EUR to 167.250 k EUR at 30 June 2016.
This item represents the outstanding income taxes payable with respect to previous fiscal years and the estimated tax liability of the current financial year for the different companies of the Group.

22. **Financial instruments: risks and fair value**

Risks

Potential risks are managed by Eandis 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 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.

As of 30 June 2016 the fair values are:

(In thousands of EUR)	Level 1	Level 2
Other investments	987	0
Green energy and cogeneration certificates (GEC & CGC)	661.393	0
Trade and other receivables excluding GEC and CGC	1.128.711	0
Cash and cash equivalents	2.988	0
Total	**1.794.079**	**0**
Loans on short term	111.320	
Bond loans	3.939.396	0
Loans on long term (included short term part)	2.425.119	0
Derivative financial instruments	0	167.583
Total	**6.475.835**	**167.583**

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 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.

23. **Important events during the reporting period**

- Changes in the shareholder structure

On 1 January 2016 Eandis and its subsidiary Indexis cvba merged. The minority interest of 30 % was acquired by the DSOs.

Eandis cvba carries out some statutory changes: **the name** of Eandis changed to 'Eandis System Operator' (but the call sign remains Eandis); the company's **object** was expanded by including the production of renewable energy sources and the **number of shares** was adjusted following the merger with Indexis.

The merger of the seven Flemish DSOs was approved in 2015, but certain conditions precedent still need to be fulfilled, which resulted in a temporary delay. The name of the merged company is **'Eandis Assets'**.

The **Walloon municipalities -** Celles, Ellezelles, Comines-Warneton and Mont-de-l'Enclus - will be merged into a separate entity **Gaselwest-Zuid.** Frasnes-lez-Anvaing decided to withdraw from Eandis and is now with the Walloon network operator Ores. Eandis, however, will temporarily continue to perform the operations.

On April 27, 2016, the Flemish Government approved the modifications to the Decree Intermunicipal Cooperation resulting in the compulsory exit of the provinces from the DSOs by end 2018 at the latest.
The provinces of **Antwerp and East Flanders** – which had already decided in principle at the end of 2015, have now done so on 30 June 2016 (see note 'Equity'). Furthermore, the province of West Flanders decided to withdraw at the end of 2018.

On 29 June 2016 a Subscription & Shareholders' Agreement was signed with the Chinese company ‘State Grid International Development Limited’ (SGID). SGID (through its 100 % subsidiary State Grid Europe Limited) will become a **shareholder** in Eandis Assets holding a capital share of **14 %**. It is expected that this transaction can be closed by the end of 2016 as soon as all the precedent conditions are fulfilled.
SGID is the wholly-owned subsidiary and the only platform for investments in energy assets outside of China by State Grid Corporation of China (SGCC). SGID has a solid history in energy investment network companies worldwide and in Europe with transmission and distribution portfolio companies in Italy, Portugal, Australia, Brazil, the Philippines and Hong Kong. SGID has an 'A +' S&P rating, ‘A1' Moody’s rating and 'A' Fitch rating.
SGCC is a public Chinese company and the largest utility company in the world. For five years in a row since 2011 SGCC holds the seventh place on the Fortune Global 500. SGCC has total assets of US$ 480 billion (year end 2015) and generated a total turnover of US$ 340 billion in 2015. SGCC has the same credit rating as China's national debt: S&P ‘AA' rating, 'Aa3' Moody's rating and 'A +' Fitch rating.

➢ Synductis: focus on less inconvenience

In April 2016 De Watergroep decided to join **Synductis** for sharing the long-term planning (shareholder B). It is intended in the long term, following a review year, to join as a full partner for the operational coordination (shareholder A).
Infrax has also joined Synductis as a shareholder B.

➢ Smart projects

At the beginning of June 2016, **Eandis and Infrax** reached an agreement to found a common company that will accommodate various services, starting with the smart end-to-end-chain.

➢ Solutions to climate problems

The Flemish Government has decided to boost the infrastructure for electric vehicles – '**Clean Power for Transport**' -, allocating different tasks to the DSOs: procurement negotiating, maintenance and operation, establishing a database and data collection.

24. **Related parties**

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

25. **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 2016.

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.

Operating in a regulated environment

The Group operates in a regulated environment and hence revenue is based on tariff rates that were 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 tariff methodology for the Flemish region.

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.

The **costs** are divided into three categories of which each has another determination of its related income:
The exogenous costs are the costs for which the DSO has no control because they are imposed: the cost of GEC, cogeneration certificates, premiums for RUE and social public service obligations.
The non-exogenous costs include the cost of depreciation, the operational costs and the compensation for the cost of capital.
Other costs include the fines.

The **allowable income** will be determined as follows:
The income related to the exogenous costs is tailored to the exogenous costs.
The income for the non-exogenous costs follows a stimulating revenue regulation to support efficient operations.
The remaining costs are borne by the distribution system operator.

The capital remuneration is referred to by the VREG as the total of the average regulated assets at a stipulated cost of capital (4,8 %) and the accepted net operating capital at a determined level (4,1 % and legal interest).

The recording of the exogenous costs at their actual value will give rise to differences between the rates and accounting costs. These balances should be booked on specific accounts and are **'regulatory balances'** in contrast to the differences from previous tariff methodologies that are labelled 'regulatory assets/liabilities'.
Two regulatory balances are allowed: a regulatory balance **for exogenous costs** and a regulatory balance **for the volume differences** regarding the revenue for non-exogenous costs.

Regulatory assets/liabilities of the past
The CREG has fixed the amounts of the regulatory assets/liabilities for the financial years 2008 and 2009. These may be recuperated in accordance with the amounts that were agreed upon by the VREG, being half of the amount in 2015 and the other half in 2016.
On 30 June 2015, the Brussels Court of Appeal ruled that the VREG is competent to determine the regulatory balances of the period 2010 to 2014 as well as their destination.
In its decision of 5 October 2015 the VREG ruled that for the time being 20% of the deficits of this period can be recharged in the tariffs of 2016 (the VREG needs to determine the final balances).

Budget 2015-2016
The eligible income for the period 2015-2016 is made up of a portion related to the allowed income for exogenous costs and a portion for non-exogenous costs. There is a budget proposal submitted by the DSOs based on a reporting model.
The income related to the non-exogenous cost is determined on the basis of the evolution of the non-exogenous sector costs for a historical period of four years (2010-2013) which, according to a linear regression technique, will determine the future income. Inflation is taken into account by discounting the costs to their current value. Also an annual adjustment for inflation is taken into account, based on the consumer price index (CPI) of August.
The data and information provided by the DSO in the reporting model regarding prior financial years, need to be controlled by the Auditor who needs to submit **an 'assurance report'** to the VREG.

Changes to the 2015 tariffs
On **18 December 2014**, the VREG approved the tariffs for the DSOs for 2015.
Eandis has asked for an **amendment** on the proposed tariffs, because the Federal contribution (decrease) and the Elia-tariff (increase) were changed after the submission. The VREG changed the tariffs accordingly as from 1 March 2015.
There was also a request for an adjustment to the tariffs following the transition from the **legal entity tax** to the corporate income tax of the DSOs. The adjustment of the rates will start from **1 August 2015** onwards. The amount not yet recovered of corporate income tax for the tax year 2015 will be settled in 2016 on top of the corporation tax for the tax year 2016.
A further change concerns the increase of the VAT rate for electricity as from 1 September 2015.

Approved 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 active) 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 has beenused in the past for the settlement.

The 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).

Changes to the tariff rate methodology during 2016
On **4 May 2016**, the VREG prepared a proposal to revise the existing tariff methodology of 2015-2016 following the introduction of the public service obligations to the distribution system operators in electricity to stimulate the **infrastructure for electric vehicles**.
The consultation period ran until 31 May 2016.
On 28 June the VREG published the tariff methodology on this subject without any effect on the tariff rates. However, the costs and benefits of the operation will be followed up during 10 years and then settled.

On 4 May 2016 the VREG published a draft of the **tariff methodology** for the Flemish distribution system operators for electricity and natural gas for the **period 2017-2020**.
The consultation period ran until 28 June 2016.
The final tariff methodology was published on 25 August 2016 and includes, among others the further settlement of the regulatory assets/liabilities for the period 2010-2014 as well as the processing of the regulatory balances for the period starting at 2015 (see note 'Subsequent events).

On 20 June 2016 the VREG published a draft for **revising the tariff structure** (for electricity) concerning the periodical distribution network tariffs.
The consultation period runs until 30 September 2016.

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 net assets and the settlement mechanism per year.

(In thousands of EUR)	**30 June 2016**	**31 December 2015**
Regulatory assets (*)		
Recoverable in present year	134.615	53.726
Transfers 2008 - 2009	53.742	53.726
Transfers 2010 - 2014	80.873	0
Recovered transfers present year	-67.307	-53.726
Recoverable in later years	264.532	399.260
Transfers 2008 - 2009	99	53.888
Transfers 2010 - 2014	264.433	345.372
Total regulatory assets	**331.840**	**399.260**
Regulatory balances		
Balances from 2015	259.705	259.705
Balances from 2016	-10.011	0
Total regulatory balances	**249.694**	**259.705**
Total amount recoverable	**581.534**	**658.965**
of which reported as Current assets	581.534	658.965

* Transfers were grouped according to their recuperation in the tariffs with 50 % 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 % take back of the transfers recorded in 2010 up to and including 2014 to recuperate during 2016 (with the exception of the scheme for the Walloon municipalities and separate treatment of the federal contribution amounting to 56.242 k EUR).

Reconciliation of the settlement mechanism

(In thousands of EUR)	30 June 2016	31 December 2015
Regulatory assets at 1 January	**658.965**	**452.986**
Recovered transfers from 2008 - 2009	-26.871	-53.726
Recovered transfers from 2010 - 2014	-40.436	0
Transfer to third parties	-113	0
Total movements regulatory assets	**-67.420**	**-53.726**
Additional transfer from 2015	0	259.705
Additional transfer from 2016	-10.011	0
Total movements regulatory balances	**-10.011**	**259.705**
Total movements	**-77.431**	**205.979**
of which - movement through the income statement	-77.318	205.979
of which - transfer to third parties	-113	0
Regulatory assets at the end of the reporting period	**581.534**	**658.965**

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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 2016 and for the 6 month period then ended

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of the Economical Group Eandis (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 € € 9.727.987 thousand and a net result for the six month period then ended of € 118.537 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 Net Owners (DNOs): Eandis Assets, 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, 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, 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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