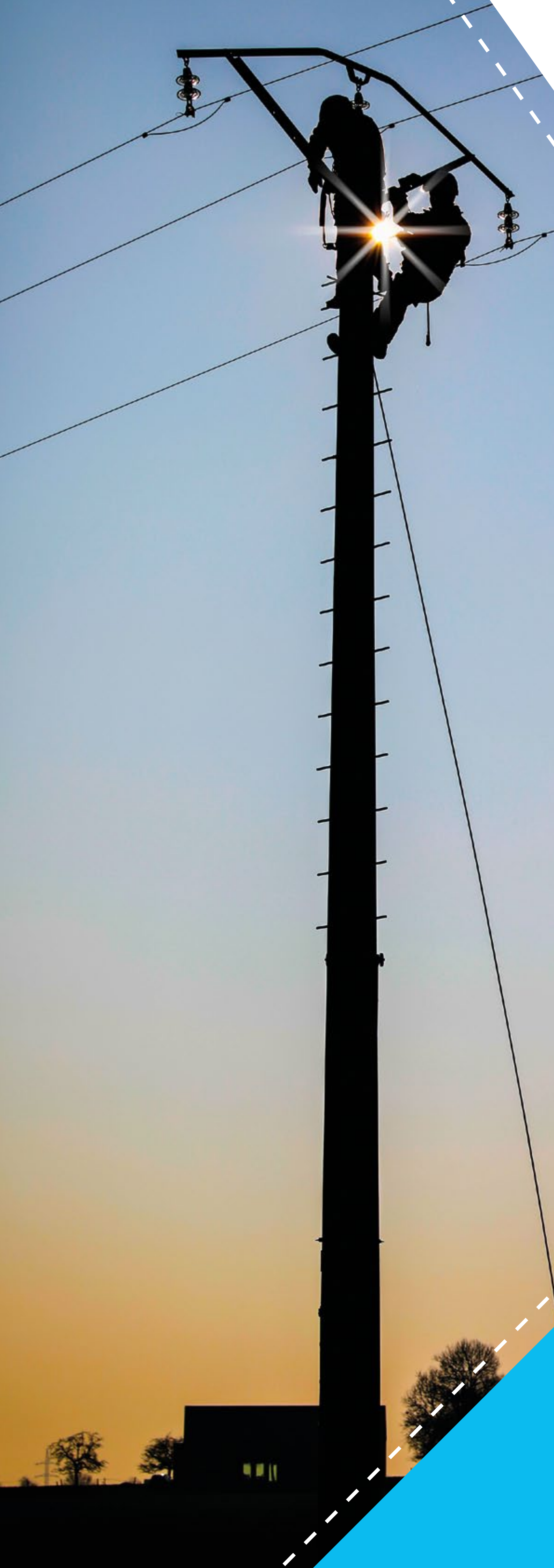

ORES

ORES Assets scrl

IFRS Consolidated

FINANCIAL STATEMENTS 2017

ORES Assets scrl
IFRS Consolidated

FINANCIAL STATEMENTS 2017

Name and Form
ORES Assets. Cooperative Company with Limited Liability.

Registered Office
Avenue Jean Monnet 2, 1348 Louvain-la-Neuve.

Incorporation
Deed of creation published in the appendix of the Belgian Official Journal of 10 January 2014 under number 14012014.

Articles of Association and Amendments
The articles of association were amended for the last time on 22 June 2017 and published in the appendix of the Belgian Official Journal of 18 July 2017 under number 2017-07-18/0104150.

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I. IFRS consolidated financial statements

1.1. CONSOLIDATED INCOME STATEMENT

(in k€)

	Note	31/12/2017	31/12/2016	DIFFERENCE
Turnover	01 - A	1,182,223	1,197,544	(15,320)
Regulated balances	01 - B	(14,104)	(55,594)	41,490
Other operating income	02	38,160	27,256	10,904
Operating income		1,206,279	1,169,206	37,073
Purchase of goods	03	(68,687)	(68,012)	(676)
Grid fees	03	(350,120)	(348,753)	(1,367)
Road charges	03	(43,168)	(43,256)	88
Employee benefits	20-21	(129,694)	(137,816)	8,122
Write down of trade receivables	12	(10,495)	(9,540)	(955)
Other operating expenses	04	(126,615)	(116,435)	(10,180)
Operating expenses		(728,779)	(723,812)	(4,967)
Operating result before depreciation and amortization		477,500	445,394	32,106
Depreciation and impairment on (in)tangible assets	09-10	(157,268)	(152,906)	(4,362)
Operating result		320,232	292,488	27,744
Financial income	05	356	570	(213)
Financial expenses	06	(54,565)	(77,298)	22,734
Financial result		(54,208)	(76,729)	22,520
Share of the result of associates	26			
Result before taxes		266,024	215,759	50,265
Taxes	23	(67,696)	(58,596)	(9,100)
Result for the period		198,327	157,163	41,164
Result of the period attributable to owners of the company		198,327	157,163	41,164
Result of the period attributable to non-controlling interests		0	0	0

1.2. CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(in k€)

	Note	31/12/2017	31/12/2016	DIFFERENCE
Result for the period		198,327	157,163	41,164
OTHER COMPREHENSIVE INCOME				
Recyclable in the profit and loss account		73,602	6,345	67,257
Change in fair value of cash flow hedges	28	10,341	9,612	729
Taxes on items that are or may be reclassified to profit and loss account	24	63,261	(3,267)	66,528
Non-recyclable in the profit and loss account		(39,438)	23,022	(62,459)
Actuarial gains and losses on defined benefit plans	21	(44,272)	34,876	(79,148)
Taxes on items that will not be reclassified to profit and loss account	24	4,834	(11,854)	16,689
OTHER COMPREHENSIVE INCOME OF THE CONTINUED ACTIVITIES - NET		34,164	29,366	4,798
Other comprehensive income attributable to owners of the company		34,164	29,366	4,798
Other comprehensive income attributable to non-controlling interests		0	0	0
COMPREHENSIVE INCOME FOR THE PERIOD		232,492	186,530	45,962

1.3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSET & LIABILITY

(in k€)

ASSET	Note	31/12/2017	31/12/2016	DIFFERENCE
Non-current assets		3,910,548	3,769,358	141,190
Goodwill	08	8,955	8,955	0
Intangible assets	09	69,727	43,467	26,260
Property, plant and equipment	10	3,819,870	3,708,428	111,442
Investments in associates	26	3	3	0
Other non-current assets	11	11,993	8,505	3,488
Current assets		485,553	408,678	76,875
Inventories	13	37,204	33,569	3,635
Trade receivables	12	184,138	191,839	(7, 701)
Other receivables	12	53,298	49,031	4,267
Current tax assets	12	78	12,114	(12,036)
Cash and cash equivalents	14	192,912	104,340	88,572
Other current assets		17,923	17,784	138
Total assets excluding regulatory assets		4,396,100	4,178,035	218,065
Regulatory assets	01 - B	117,483	135,415	(17,931)
TOTAL ASSET		4,513,584	4,313,450	200,134

(in k€)

LIABILITY	Note	31/12/2017	31/12/2016	DIFFERENCE
Equity		1,589,784	1,549,622	40,162
Share capital		712,257	795,979	(83,722)
Retained earnings		869,793	785,317	84,476
Other reserves		7,707	(31,704)	39,411
Non-controlling interests		27	31	(4)
Non-current liabilities		2,399,910	2,167,839	232,071
Borrowings	16	2,007,442	1,708,789	298,653
Provisions for employee benefits	20	102,768	106,705	(3,937)
Other provisions	19	33,670	24,702	8,968
Deferred tax liabilities	24	246,017	309,465	(63,448)
Other non-current liabilities	18-28	10,013	18,177	(8,165)
Current liabilities		473,791	542,064	(68,273)
Borrowings	16	253,513	304,365	(50,852)
Trade payables	17-18	159,297	156,020	3,277
Other payables	17-18	54,283	70,618	(16,335)
Current tax liabilities	23	3,920	3,945	(25)
Other current liabilities	17-18	2,777	7,116	(4,338)
Total liabilities excluding regulatory liabilities		4,463,485	4,259,524	203,960
Regulatory liabilities	01 - B	50,099	53,926	(3,827)
TOTAL LIABILITY		4,513,584	4,313,450	200,134

1.4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in k€)

	SHARE CAPITAL	RESERVES: CASH FLOW HEDGES	RESERVES: ACTUARIAL GAINS AND LOSSES ON DEFINED BENEFIT PLANS	RESERVES: STATUTORY RESERVES	RESERVES: TOTAL	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
AT 1ST JANUARY 2017	795,979	(13,569)	(45,771)	27,636	(31,704)	785,317	31	1,549,622
Comprehensive income for the period								
- Profit and loss				744	744	197,587	(4)	198,327
- Other comprehensive income, net of income tax		73,602	(39,438)		34,164			34,164
Transactions with shareholders								
- Dividends relating to the previous year						(84,247)		(84,247)
- Capital increase through creation of A shares	21,810							21,810
- Capital decrease through conversion of R shares into A shares	(6,728)							(6,728)
- Capital decrease through repayment of R shares	(98,804)							(98,804)
- Reserves distribution				(24,360)	(24,360)			(24,360)
Transfers								
- Transfers from or to statutory reserves				28,864	28,864	(28,864)		0
AT 31 DECEMBER 2017	712,257	60,032	(85,208)	32,883	7,707	869,794	27	1,589,784

(in k€)

	SHARE CAPITAL	RESERVES: CASH FLOW HEDGES	RESERVES: ACTUARIAL GAINS AND LOSSES ON DEFINED BENEFIT PLANS	RESERVES: STATUTORY RESERVES	RESERVES: TOTAL	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
AT 1ST JANUARY 2016	793,170	(19,914)	(68,792)	(8,163)	(96,869)	735,935	31	1,432,266
Comprehensive income for the period								
- Profit and loss				744	744	156,419		157,163
- Other comprehensive income, net of income tax		6,345	23,022		29,366			29,366
Transactions with shareholders								
- Dividends relating to the previous year						(71,116)		(71,116)
- Capital increase through creation of A shares	11,060							11,060
- Capital decrease through conversion of R shares into A shares	(8,986)							(8,986)
- Capital increase through the contribution from the municipality of Frasnes-Lez-Anvaing	1,240							1,240
- Capital decrease through the cease of the municipality of Fourons	(505)			(293)	(293)	(574)		(1,372)
Transfers								
- Transfers from or to statutory reserves				35,347	35,347	(35,347)		0
AT 31 DECEMBER 2016	795,979	(13,569)	(45,771)	27,636	(31,704)	785,317	31	1,549,622

1.5. CONSOLIDATED STATEMENT OF CASH FLOWS

(in k€)

	Note	31/12/2017	31/12/2016
OPERATING CASH FLOW			
Comprehensive income for the period		198,327	157,163
Adjustments for the following elements :			
Depreciation and impairment on (in)tangible assets	09-10	157,268	152,906
Changes in provisions	19-20	(35,101)	(50,393)
Gains or losses on sales of (in)tangible assets	09-10	(350)	(278)
Write down of trade receivables	12	11,159	10,379
Financial income	05	(356)	(570)
Financial charges	06	54,565	77,298
Income tax expenses recognised in profit or loss	23	67,696	58,596
Regulatory balances	01B	4,066	48,898
Operating cash flow before change in working capital		457,275	454,000
Change in working capital			
Change in inventories	13	(3,635)	(4,327)
Change in trade and other receivables	12	(5,010)	(35,131)
Change in trade and other payables	17	(10,315)	17,961
Operating cash flow		438,315	432,503
Paid interest	06	(59,449)	(65,538)
Received interest	05	283	551
Paid or received taxes		(51,004)	(52,434)
Regulatory balances recovered	01B	10,038	6,743
Net operating cash flow		338,182	321,825
INVESTING CASH FLOW			
Acquisition of intangible assets	09-10	(36,071)	(20,967)
Acquisition of tangible assets	09-10	(260,673)	(263,535)
Sale of tangible assets	09-10	2,124	331
Other investing cash flows	26		2,358
Net investing cash flow		(294,620)	(281,813)
FINANCING CASH FLOW			
Change in capital	15	(83,722)	1,942
Borrowings issuance	16	557,800	130,000
Borrowings repayment	16	(314,565)	(102,987)
Issuance and repayment of long term receivables	11	(1,336)	(1,401)
Paid dividends	15	(113,235)	(66,963)
Grants related to assets		71	
Acquisition/sale of partial interests in a subsidiary	25	(4)	
Net financing cash flow		45,009	(39,409)
CHANGE IN CASH AND CASH EQUIVALENTS OF THE CONTINUED ACTIVITIES		88,572	603
CASH AND CASH EQUIVALENTS BEGIN OF PERIOD		104,340	103,737
CASH AND CASH EQUIVALENTS END OF PERIOD		192,912	104,340

1.6. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

(in k€)

	01/01/2017	CASH FLOWS FROM FINANCING ACTIVITIES	CASH FLOWS FROM OPE-RATIONAL ACTIVITIES	NON-CASH CHANGES					31/12/2017
				RECLASSIFICATION	ACQUISITION/SALE OF PARTIAL INTERESTS IN A SUBSIDIARY	FAIR VALUE CHANGES	OTHERS	TOTAL	
Other non-current assets	8,505	(1,315)	(1,789)		(4)	(379)		(383)	11,993
Other receivables	49,031	(47,241)	643	42,614			(282)	42,332	53,298
Equity	1,549,622	(144,459)	198,327	(47,874)	4	34,164		(13,707)	1,589,784
Long-term borrowings	1,708,789	392,849		(94,783)		587		(94,196)	2,007,442
Short-term borrowings	304,365	(143,321)		93,421		(952)		92,469	253,513
Other non-current liabilities	18,177	(21)		48		(8,192)		(8,144)	10,013
Other payables	70,618	(11,553)	(11,355)	6,574				6,574	54,283
Other current liabilities	7,116	71	(2,219)			(2,150)	(41)	(2,190)	2,777
	3,716,223	45,009	183,607	0	0	23,078	(323)	22,755	3,983,104

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PRELIMINARY NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

REPORTING ENTITY AND GROUP ORES

The ORES Group (the "Group") consists, on the one hand, of ORES Assets scrl, established from the merger of the eight Walloon associations of municipalities with external partner (thereafter referred to as "DSO" or "ORES Assets") active in electricity and gas distribution, dated 31 December 2013 with a retroactive effect as from 1st January 2013, and, on the other hand, of the limited liability cooperative company ORES scrl (thereafter referred to "ORES scrl") whose shares are almost entirely held by ORES Assets (99.72%); the left part is held by seven financing associations of municipalities ("intercommunales pures de financement") associated in ORES Assets.

In addition, there is also a company partially owned by ORES scrl: Atrias, held at 16.67%, ORES scrl has a significant influence over this company, which is consequently consolidated using the equity method. As Engie / Electrabel sold its shares in ORES Assets to the financing associations of municipalities as of 31 December 2016, the DSO is now 100% owned by the public authorities (municipalities in which territory it operates or financing associations of municipalities). The Group is exclusively active in Wallonia, Belgium, on the territory of the municipalities that are the shareholders of the DSO. The registered address of the Group is the headquarters of ORES Assets, located Avenue Jean Monnet 2, 1348 Louvain-la-Neuve (Belgium).

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of directors of ORES Assets approved the Group consolidated financial statements and authorised their publication on 25 April 2018.

SIGNIFICANT EVENTS FOR THE YEAR 2017

AVERAGE FAIR RETURN ON INVESTED CAPITAL

The average fair return on the invested capital ("REMCI"), remuneration to which ORES Assets is entitled for its activity "network operator" and which is a significant part of the profit of the Group, amounts at the end of 2017 to:

• Electricity: k€ 58,352 c/ k€ 56,638 in 2016, i.e. + 3.0%;

• Gas: k€ 30,373 c/ k€ 29,014 in 2016, i.e. + 4.7%.

Compared to the end of 2016, the rate of remuneration applied to the secondary RAB (in particular based on the average 10-years OLO rate for the related fiscal year) is increasing (the average 10-years OLO rate of 2017 being 0.74% c/ 0.49% at the end of 2016). As a reminder, one of the parameters taken into account to determine the rate of return applied to the primary RAB is the average 10-years OLO rate of 2013, i.e. 2.43%.

The elements allowing the determination of the average fair return on invested capital, are described in the accounting policies appended to this annual report.

VARIOUS

As mentioned in the annual report as of 31 December 2016, the transfer to RESA of all aspects related to the management of the market and socially protected customers of the City of Liège, initially planned for the end of 2016, was finally completed in 2017. This transfer definitively finalize RESA's takeover of the technical operation of the electricity network of the City of Liège and the accompanying legal responsibility.

Other highlights of the year were:

- subscription of new loans: from the EIB (European Investment Bank) for € 150 million (within the framework of a € 550 million program), from BNP Paribas Fortis for € 190 million and from ING for € 70 million;
- distribution of part of the available reserves for an amount of € 24 million;
- finalization of the partial demerger of PBE as part of the affiliation of four Walloon municipalities: Incourt, Chastre, Perwez and Villers-la-Ville, in ORES Assets applicable as of 1st January 2018;
- as in 2016, a capital increase (€ 22 million) was subscribed by the partners at the end of the 2017 financial year.

DIVIDENDS

On 22th June 2017, the shareholders of ORES Assets approved the payment of a total gross dividend of € 84.2 million at the shareholders'meeting.

REPORT ON RISKS AND UNCERTAINTIES

The following paragraphs describe the measures taken to address known risks and uncertainties that the ORES Group is facing. Some unidentified risks in this list may exist, or might exist or gain importance in the future although they appear limited currently. Note also that the order of appearance below is not representative of importance.

LEGAL, REGULATORY AND OPERATIONAL RISKS AND UNCERTAINTIES

RISKS RELATED TO TARIFF SUSTAINABILITY

ORES activities are ruled by an important legislative and regulatory framework. Two of the main elements are the Tariff Decree and the tariff methodology established on this basis by the CWaPE, competent regulator for the electricity and gas distribution business in the area of the municipalities associated with ORES.

This methodology defines in particular:

- The authorized revenue that can be charged to the customers via the tariffs and which therefore allows to carry out the legal and regulatory missions of ORES;
- Incentive regulation mechanisms;
- The determination of tariffs...

The context in the sector is changing (sustainable development, energy efficiency, self-production, electric vehicles, batteries, etc.) and it induces new needs and a change in the sampling behavior of network users, which calls for an evolution of the regulation and pricing model.

The tariff decisions taken by the CWaPE in the context of the approval of tariffs for the period 2019 to 2023, as well as changes in tariff parameters based on the tariff methodology, could put pressure on ORES's authorized revenue:

- The realisation of some of the legal and regulatory missions of ORES could be jeopardized;
- The quality of the services could decrease;
- The necessary adaptation for the energy transition and the digitization of the company could only be partially achieved (especially certain ORES strategic and transformation projects).

The current proposed tariff model is indeed unbalanced, in some points incoherent and a source of uncertainties.

ORES continues its contacts with the regulator on the tariff methodology, its implementation and has introduced, under certain conditions, proposals relating to the authorized revenue in view of the approval of tariffs 2019-2023. ORES has submitted its official reactions in the process of dialogue and public consultation on approval of the 2019-2023 tariff methodology and has appealed against the final methodology approved by the CWaPE given the non-compliance with the prescriptions of the Tariff Decree and general principles of law relating to tariff regulation. Simultaneously, with the aim of making the energy transition at a lower cost for network users, it has implemented a program to optimize costs and operational efficiency, including a new organizational model for management of transformation projects.

Moreover, measures taken by the Walloon regional authorities may also affect ORES. Thus, the Regional Policy Declaration adopted by the Walloon Government at the beginning of each legislature - one chapter of which is devoted to energy - sets the outlines of energy policy, especially regarding to energy efficiency. Another example is the study requested by the Minister of Energy on tariff harmonization. ORES adopts a proactive attitude towards the resulting changes, as well as all other legal and regulatory adaptations that may have an impact on its business.

This is part of its desire to act as market(s) facilitator and to position itself as the legitimate and recognized partner, the privileged contact of the authorities in the field of energy policy.

RISKS RELATED TO THE ROLE AND TASKS OF THE DISTRIBUTION SYSTEM OPERATOR, THE LEGITIMACY OF ITS STRUCTURE AND THE LOCAL ANCHORING

The risk consists of a loss or a deterioration of the scope of ORES in its three core businesses (gas and electricity network operator (DSO), market facilitator, partner of the authorities). This threat could grow in the coming years and could cause ORES to reconsider the level of uncertainty. The areas most at risk are public lighting, energy storage, under-metering and data management. The level could be accentuated by misunderstanding and questioning of the Group's legal structure and “corporate governance” rules.

This risk is impacted by various factors. Third parties position themselves as competitors in activities and may cause deregulation. Other factors are induced by technological developments, media pressure or certain political indecision, including the future legislative and regulatory context.

To clarify its structure, ORES has adopted the necessary statutory amendments in June 2017. ORES has adapted its organization and its processes to favor local relations with local authorities, in order to strengthen the appropriation of local requests as well as to share and support the issues related to its activities and municipal realities.

ORES also highlights its organizational model and its skills through its major projects, while raising awareness among the various bodies and key players and focusing on short decision-making processes.

ORES also takes into account the fast evolution of the number of decentralized electricity production facilities, as well as the development of new technologies that help

protecting the environment. The roles of different market players are challenged and new roles appear. Electricity storage, flexibility, use of telecom networks, remote network operation and new power applications are developing; new materials and technologies are emerging for public lighting; customers participate more actively in the management of their energy, sometimes being consumers and sometimes producers. ORES pays close attention to these developments and wishes to reaffirm the role of recognised facilitator as a DSO since the beginning of the liberalization of the markets.

A comprehensive set of internal corporate governance rules and procedures is in place to ensure the proper functioning of corporate bodies, including management and auditing.

RISKS RELATED TO THE COMPANY TRANSFORMATION, THE PROJECTS MANAGEMENT AND THE APPLICATION PORTFOLIO

To meet the three society challenges (energy transition, customer orientation and corporate culture), as well as to sustain its three businesses (see above) in a changing and increasingly "competitive" context, ORES has chosen to transform itself and has updated its action plan. The focus is on the implementation of a new organizational model, the results of the IT diagnostic, the adaptation of the IT landscape as well as of the application and related processes, the professionalization of project management, with a priority given to the "Atrias" project. The company also pursues its actions in terms of corporate culture and the provision of the necessary skills.

In a context where financial means are limited, ORES has also begun to reflect on the strategy within the company, its project portfolio and their planning. The company identifies the most appropriate application tools that will enable it to carry out its business, manage networks, process information and make it available in the context of the development of big data, technologies and IT needs in a world continuously more "smart" and more digitized.

It also ensures that it is able to react appropriately in the event of an intrusion or security risk on its information systems: ORES is attentive to the respect of the personal data protection, to the alteration or loss of databases, failure of computer systems or applications, spread of viruses, hacking or failure of the telecommunications network.

In this development, ORES takes into account other criteria such as the intermittent and random nature of decentralized electricity production, which reveals certain uncertainties as to the specificities to which the distribution networks of tomorrow will have to respond.

RISKS RELATED TO OPERATIONAL EFFICIENCY AND CUSTOMER SATISFACTION

ORES manages its electricity and natural gas distribution networks with one objective: secure their reliability and the continuity of the energy supply of the customers, while respecting the defined objectives, deadlines and budgets, as well as by comparing favourably with other operators.

ORES, its business and its assets are subject to European, national and regional regulations relating to environmental and urban planning matters, dealing in particular with soil pollution, safety equipment for electrical installations, information, coordination and organization of construction sites or waste management. These provisions are often complex and subject to change - potentially resulting in a stricter framework. Respecting them can therefore impose significant additional costs for ORES, or even lead to the deferral of ongoing projects. Provisions are recorded to cover any additional costs, Natural phenomena - storms, floods, snowfall combined with brutal frost, etc. - as well as damage caused by third parties - road accidents, random levelling and vandalism - can lead to incidents and damage to the distribution networks. These events are covered either by third party insurance or by ORES insurance. In certain cases, ORES insures its own risk.

The risk of legal litigation is inherent in the activities of ORES. Adequate provisions have been or will be recorded to mitigate this risk.

Finally, the company is attentive to the quality of services provided and ensures a positive image.

It simplifies its processes and optimizes the customer relationship, in order to meet the needs and satisfy them in terms of time and quality, in compliance with the defined rules (tariffs, ethics, etc.). Customer requirements evolve and focus on immediacy, digitalization and price acceptability. To answer this question, ORES improves the availability of its teams, changes its corporate culture and sets up the means for digital interaction. Complementarily, it modernizes and optimizes its networks and tools.

RISKS RELATED TO SKILLS AND BEHAVIORS AS WELL AS TO SAFETY AND WELL-BEING TOPICS

ORES puts the human at the heart of its activities. The company seeks to attract, develop and retain talent, while identifying new businesses and transforming existing businesses. Different actions find place in terms of recruitment, training, optimization of organization and performance enhancement. Cultural change, cost control, creation of a work environment developing creativity, trust and proximity management, interaction and well-being are also priorities.

Whatever their activities in the company, ORES considers it crucial that staff members always have in mind the imperatives of prevention and compliance with health and safety requirements, in order to limit risks of accident and incident at the workplace. In this context, the company is implementing a five-year global action plan, which incorporates a multi-year awareness program - called "Shared Vigilance" - as well as an annual action plan.

FINANCIAL RISKS

TAX RISK

The two companies, ORES Assets scrl and ORES scrl, are subject to income tax. Currently, the tariff methodology provides that any tax charges is integrated into the tariffs and consequently, the impact of changes in tax legislation is limited for the ORES Group.

ASSETS AND LIQUIDITY RISKS

As part of the management of these risks and the invoicing of transit fees, ORES has financial guarantees from all energy suppliers active on the network. These financial guarantees are defined by the contract granting access to the network and are revisable yearly. The company is also reinforcing the specific receivable recovery actions related to works carried out in the frame of network management, through the award of public contracts to collection companies.

MACROECONOMIC AND CYCLICAL RISKS

The current economic situation could have an impact on the electricity and natural gas demand or on the financing conditions of ORES, or even on the result to be distributed to the shareholders. These risks and their effects are normally not borne by the Group. The tariff methodology provides for their inclusion in the approval of regulatory balances and their allocation, in principle, in the tariffs for the next regulatory period.

NOTE 01 A – TURNOVER

(in k€)

ELECTRICITY	31/12/2017	31/12/2016
Transit fees	875,247	867,207
Public service obligation (PSO)	18,243	17,937
Transfer of assets from customers	49,837	45,314
Other	1,059	867
	944,386	931,325
GAS		
Transit fees	206,400	217,376
Public service obligation (PSO)	7,805	8,797
Transfer of assets from customers	6,172	4,747
	220,377	230,920
NOT ALLOCATED		
Third party inventory management	6,322	8,226
Construction contracts	10,230	6,821
Third party network management	908	20,252
	17,460	35,299
TOTAL TURNOVER	1,182,223	1,197,544

TRANSIT FEE

The Group's turnover is mainly composed of income and expenses related to the transit fees from the electricity and gas distribution network. The Group provides on behalf of the energy suppliers the electricity and gas distribution directly to the houses and companies that are connected to the network. Concerning the electricity, the transit fee also includes a fee for the transport network for which Elia as electricity transmission operator ("TSO") is the sole manager. The fee is invoiced by Elia to the Group and is recorded as a cost of sales (cascade principle - see also note 03).

Income and expenses related to transit fees are recognised based on the tariffs applicable for the year as soon as the electricity or gas has been supplied and transported to consumers that are connected to the network during the related period. The amounts recognised as income are based on meter readings and estimates for the use of the network that has not been metered (invoiced with deposit). These estimates are adjusted at year-end with the unmetered transit fee (RTNR) which is calculated based on the total actual volume that has transited on the network.

The regulatory environment in which the Group operates is described in the accounting policies in III.A.15.

The tariff proposals applicable during the 2017 financial year throughout the municipalities in the Walloon region where ORES Assets operates have been submitted to the regional regulator ("CWaPE") on 9 September 2016. They have been approved by the CWaPE on 15 December 2016 and are applicable from 1st January 2017. The tariffs were revised on 13 February 2017 (to take into account the new surcharges of the TSO and the rebilling of the transport costs) with entry into force on 1st March 2017.

Regarding to the transit fees for electricity, while the invoiced quantities are fairly stable (+0.17% compared to 2016), we note an increase of € 8 million, mainly due to an increase of + 2.97% of the average price per KWh invoiced (increase in the combined transport and distribution rate).

Regarding gas transit fees, despite the increase in the quantities invoiced (+ 5.26% compared to 2016), they are down by € 11.7 million, mainly due to the unrecorded transit fee of which changed from € + 18.8 million at the end of 2016 to € -2.5 million at the end of 2017. This is a consequence of the underestimation of the deposits invoiced in 2016, these being established based on the consumptions of the previous year, directly depending on the climate of this reference year.

PUBLIC SERVICES OBLIGATIONS (PSO)

The Walloon Government imposes to the DSO public service obligations ("PSO") that are clearly defined, transparent, non-discriminatory and which are subject to review by the CWaPE, including:

- to ensure energy supply to protected customers at the social tariff. The difference between the social tariff and the market price is partially recovered by the DSO from the regulator (funds managed by the latter) and partially through the tariffs depending on the type of protected customer, which ensures neutrality in the income statement;

- to ensure on a temporary basis the supply of end customers who find themselves temporarily without a supply contract or for whom the contract has been suspended (customers are called 'supplier X'). The corresponding energy purchases are recognised in cost of sales (see note 03);

- to ensure the installation of a budget meter at the request of the client or in the frame of a procedure of payment default of the end customer towards its energy supplier;

- to ensure the single counter: in order to simplify the administrative procedures, the DSO is the single point of contact for electricity producers with a solar photovoltaic installation of a net power of 10 kVa at most, wishing to connect to the network and benefit from the system of green certificates;

- to ensure the maintenance of public lighting which is the property of the municipalities.

Costs relating thereto are recorded in "other operating expenses" (note 04) or in "employee benefits" (note 20).

Income and expenses related to the sale of energy in the context of public service obligations (including protected customers) are recognised when electricity or gas has been supplied and transported to consumers connected to the network during the corresponding period. The amounts recognised as revenue are based on meter readings and estimates for the part of the network that has not been metered.

Income from OSP in 2017 in both gas and electricity is stable (-€0.7 million for all energy sources). The same stability is also noted in terms of energy purchases (+€1 million in 2017), because even if they are increasing, the increase is not directly linked to own purchases but to other items (see note 03).

TRANSFER OF ASSETS FROM CUSTOMERS

Transfer of assets from customers related to the construction of connections or extensions to the network are usually recognised at the end of the works.

The progression is upwards in 2017 (+ € 5.9 million), linked to the increase in investments (see note 10). The movement identified in the transfer of assets from customers mainly comes from a cyclical element, namely the evolution of the volume of work involved.

THIRD-PARTY NETWORK MANAGEMENT

The Group has entered into a service contract providing inventory management (logistics) on behalf of a third party, to which it also sells merchandise. This contract defines a remuneration based on used square meters.

The evolution in 2017 is downwards (-23.15%) mainly due to the fact that the year 2016 had recorded a regularization relative to the previous years.

CONSTRUCTION CONTRACTS

The turnover of the Group also includes revenue from construction contracts for various projects such as the expansion work performed on public lightings. As the finalization of the construction contract can be estimated reliably, revenues and expenses related to this contract are recognised in the income statement according to the percentage of completion method.

THIRD PARTY NETWORK MANAGEMENT

Following the partial demerger of the association of municipalities "Intermosane", the operation of the electricity network of the City of Liège was still managed by the Group, but on behalf of RESA.

The transfer to RESA of all aspects related to the management of the market and the socially protected clientele of the City of Liège, initially planned for the end of 2016, was finally completed in 2017. This transfer allowed to definitively close the takeover by RESA of the operation of the electricity network of the City of Liège and the legal responsibility that goes along with it. This explains the much lower amount invoiced to RESA in 2017.

NOTE 01 B - REGULATORY BALANCES

(in k€)

STATEMENT OF FINANCIAL POSITION	31/12/2017	31/12/2016
Regulatory assets		
Tariff period 2008-2017	117,483	135,415
	117,483	135,415
Regulatory liabilities		
Tariff period 2008-2017	(50,099)	(53,926)
	(50,099)	(53,926)
TOTAL REGULATORY BALANCES	**67,384**	**81,489**

STATEMENT OF COMPREHENSIVE INCOME		
Electricity		
Year 2017	9,712	(14,610)
Prepayment 2017 recovered	(9,254)	(3,629)
	458	(18,239)
Gas		
Year 2017	(3,730)	(34,241)
Prepayment 2017 recovered	(10,832)	(3,114)
	(14,562)	(37,355)
TOTAL REGULATORY BALANCES	**(14,104)**	**(55,594)**

A detailed information of the new transitory tariff methodology of CWaPE and of the regulatory environment in which the Group operates is described in the accounting policies (III.A.15.).

Currently, there is no specific IFRS dealing with the accounting treatment of regulatory balances in a regulated environment. Discussions are in progress within the IASB concerning the publication of a new standard on rate-regulated activities that would clarify the proper accounting treatment of such activities. In this context, a transitional standard was published in January 2014 (IFRS 14 regulatory deferral accounts) but applies only to IFRS first-time adopters. It explicitly allows the recognition of regulated assets and liabilities within the statement of financial position and these assets and liabilities should be presented in a separate caption, distinctly from the other assets or liabilities.

The Group has made the assumption that these balances would be recovered in the future and are therefore recognised as an asset or a liability.

Regulatory balances at the end of 2017 result in a regulatory asset for an amount of € 67.4 million (compared to € 81.5 million in 2016). This mainly results from the differences observed during this regulatory period between the actual cost supported and the initial budget assumptions.

Note that since 2015, an advance corresponding to 10% of the netting between the regulatory assets and liabilities cumulated from 2008 to 2013 can be recovered through the distribution tariffs as defined in the new tariff methodology of the CWaPE which has been adopted in 2014 (we refer to section III.A.15 in the accounting policies).

In its 2017 tariff methodology (approved on December 15, 2016 and extended for the 2018 financial year by decision of 1st December 2017). CWaPE also authorized that 20% of the cumulative regulatory balances for the period 2008-2014 would be recovered (in the form of an advance payment) over the year 2017 and 2018. This enabled the recovery of € 19.5 million in 2017, including € 8.7 million in electricity and € 10.8 million in gas.

The regulator wishes to fully clear the residual 2008-2014 cumulative tariff balances by 31 December 2022.

At year-end 2017, the regulatory balances (advances excluded) increase by € 6 million (€ +9.7 million related to the electricity and € -3.7 million related to the gas).

For electricity, this is mainly due to:

- The transport fee (lower revenues and higher costs);
- The volume effect (the quantities distributed are significantly lower than those budgeted);
- The indexation of manageable costs higher than expected.

For gas, regulated liabilities for the year are mainly due to:

- The decrease in the actual costs of OSP compared to those budgeted;
- Lower than expected expenses in the road usage fee.

NOTE 02 - OTHER OPERATING INCOME

(in k€)

	31/12/2017	31/12/2016
Recovery of fraudulent consumption	3,788	3,879
Recovery from clients	8,877	8,689
Network damages	3,119	3,686
Rentals / supplies	3,575	3,149
Other recovery of expenses	18,801	7,853
	38,160	27,256

"Other recovery of expenses" mainly relates to recoveries other than those related to customers from distribution system operators, such as:

- Trainings paid by our subcontractors to obtain a work permit on our networks;
- The reinvoicing of costs related to joint projects conducted with our counterparts from Brussels or Flanders;
- Fees paid by other companies in the sector for administrative management.

Following the total sale of the network management activity of the City of Liège, RESA paid ORES an indemnity covering the share of the pension commitments paid in advance by ORES to Electrabel upon the creation of the company. This largely explains the significant increase in other expense recoveries.

NOTE 03 – COST OF SALES

(in k€)

	31/12/2017	31/12/2016
Goods and supplies		
Energy purchases (PSO - gas and electricity)	27,455	26,497
Network losses (power)	33,443	34,278
Goods	7,789	7,237
	68,687	68,012
Grid fees (power)	350,120	348,753
Road charges	43,168	43,256
	461,975	460,021

GOODS AND SUPPLIES

Goods and supplies mainly relate to the purchase of energy losses from the electricity sector. Indeed, following the decree of the Walloon Government dated 03 March 2011 (article 147), the DSO compensates the energy losses on the distribution network by purchasing suitable energy. Those purchases are subject to public market rules (competitive tendering procedure (bid or tender call)). They are slightly decreasing by € -0.8million mainly due to the decrease of the purchased quantity in 2017 (-3.12%),

Concerning, the energy purchases, they are among others related to protected customers in the context of public service obligations, whose stability is related to the income related to PSO (see note 01A).

Indeed, the increase is mainly generated by reconciliation balances of consumption volumes compared to actual consumption volumes: the reconciliation of previous periods, carried out in 2017, let us to record a higher expense of € 0.8 million compared to 2016.

GRID FEES

The electricity transport system operator monthly invoices the DSO the fee for using its network. The DSO reinvoices that fee to the energy suppliers (cascade principle). This applies only to the electricity sector as the gas transport fee is charged directly by the transport system operator to the energy suppliers.

Although the volumes transported slightly decreased by 0.79% in 2017, the grid fees invoiced by Elia have increased by 0.39%, as a result of the increase in the transport fee per MWh of 1.13%.

ROAD CHARGES

DSO is required to calculate yearly road charges related to electricity distribution (fully repaid to the municipalities) or gas distribution (repaid to municipalities, to provinces and to the Walloon Region). They are calculated based on the quantities transported previous year.

NOTE 04 - OTHER OPERATING EXPENSES

(in k€)

	31/12/2017	31/12/2016
Network maintenance charges	5,386	5,195
Third party fees	28,582	30,709
IT consultancy fees (1)	19,595	23,359
Call center expenses	5,213	5,472
Insurance	1,860	2,011
Vehicles lease	2,577	2,383
Property & optical fiber lease	4,277	5,059
Other lease	13,729	11,217
Vehicles costs	6,010	5,943
Own furniture	7,223	7,396
Others (2)	32,163	17,691
	126,615	116,435

IT CONSULTANCY FEES

The decrease in this caption (€ -3.8 million) is explained by the fact that a larger part of these expenses relating to ongoing IT projects are activated within the group (see note 09); for example, the expenses related to the Smart Metering and Smart Grid projects ("smart" meters and networks) or the Atrias project dealing with the elaboration of the new clearing House.

OTHERS

The significant increase in this item (+ € 14.5 million) is mainly due to the provisions recorded in 2017 (+ € 10.2 million), including the "Atrias" project for € 4.9 million and a provision to cover application risks associated with the transition to new IT systems needed for market processes and their changes for € 3.1 million (see also note 19 on provisions).

In addition to this, Qualiwatt premiums (premiums paid in the context of photovoltaic pannels installation) increased by € 2.5 million in 2017 following the increase in the number of applications submitted.

NOTE 05 - FINANCIAL INCOME

(in k€)

	31/12/2017	31/12/2016
Interest income	268	319
Other	88	251
	356	570

In 2017, the decrease in our financial income (- € 0.2 million) is mainly due to the low interest rates offered by the financial markets (very low or negative rates).

NOTE 06 - FINANCIAL EXPENSES

(in k€)

	31/12/2017	31/12/2016
Interest on loans	16,658	23,100
Interests on treasury bills	5,754	7,044
Interests on bonds	23,637	23,637
Other interest expense (IRS & collar)	12,223	10,929
Total interest expense	58,272	64,710
Unwinding of discounts on provisions	(4,140)	12,370
Other financial expenses	433	218
TOTAL FINANCIAL EXPENSES	54,565	77,298

DESCRIPTION OF THE HEDGE POLICY WITHIN THE GROUP

Changes in interest rates have an impact on the level of financial expenses. To minimize this risk, the Group applies a financing policy that seeks to achieve an optimal balance between fixed and variable interest rates. In addition, hedging instruments are used to hedge uncertain trends. The financing policy takes into account the difference in the life of the loans and the assets. These three items (duration of borrowing, interest rates and use of hedging derivatives) were decided by the competent bodies of ORES Assets and ORES scrl, which enabled the financial policy to be set for the active management of the debt.

TREASURY BILLS PROGRAM

In 2017, the Group issued several treasury bills for a period ranging from 3 to 9 months and representing a total amount of € 145 million.

At the level of long-term treasury bills (issued in the form of private placements), several expired in 2017 and were not renewed, which explains the decrease in financial expenses related to this item.

BONDS ISSUE

Financial charges related to bonds are identical to 2016 (€ 23.6 million), no capital repayment has been made or new loan contracted.

LOANS

The significant decrease in financial charges related to bank loans (- € 6.4 million) results from a general decrease in the debt ratio of the Group's debt. On the one hand, the old loans with high interest rates are gradually being replaced by new loans benefiting from conditions that are more favourable and, on the other hand, the continuation of the restructuring of existing bank loans (see note 16 on borrowings).

DERIVATIVE INSTRUMENTS (SWAPS, CAPS, COLLAR - OTHER INTEREST EXPENSES)

Despite the decrease in financial charges related to the non-renewal of swaps, hedging floating rates, related to bank loans maturing in 2017 (recognized in other interest expenses - see also note 28 on derivative instruments), this item increased (+ € 1.3 million) following the purchase of CAP in 2017 to cover certain variable rate loans, and the recording as expense of the collar recorded as financial assets in 2016.

Indeed, after thorough analysis carried out during the first half of 2017, it turned out that this derivative should not be recognized separately from the borrowings it covers because it is closely linked to it. As a result, it was derecognized and its residual value (€ 1.1 million) was taken directly into financial expenses.

UNWINDING OF "DISCOUNTS ON PROVISIONS"

This caption records the actuarial variations related to the unwinding of discount (the amount increase with time as the commitment is actualized, all other things being equal) on provisions regarding jubilees and invalidity as these two advantages are considered as other long term benefits.

In 2017, unlike in 2016, we recorded an income (€ 4.1 million), despite the decrease in the discount rate from 1.28% to 1.18%. This was indeed largely offset by the change in the pension hypothesis and by experience adjustments related to the 2017 reality.

NOTE 07 - SEGMENT INFORMATION

FINANCIAL DATA PER OPERATING SEGMENT ACCORDING TO BELGIAN GAAP

a) Income statement

(in k€)

31/12/2017	Sector				
	Gas	Electricity	OTHER ACTIVITIES (1)	ORES (2)	TOTAL CONSOLIDATED (3)
Belgian GAAP					
Turnover	198,370	900,760		570,655	1,669,785
Other operating income	4,534	21,941	648	17,727	44,850
Operating expenses	(139,821)	(773,027)	(33)	(582,848)	(1,495,729)
Operating result	63,082	149,675	615	5,534	218,906
Financial income	54	173	1	32,517	32,744
Financial expenses	(20,866)	(39,420)	(1)	(32,517)	(92,803)
Financial result	(20,812)	(39,248)	0	0	(60,059)
Others					0
Result before taxes	42,270	110,427	615	5,534	158,847
Taxes	(10,540)	(46,766)	(209)	(5,534)	(63,050)
Transfer to free tax reserves	(137)	(607)			(744)
RESULT FOR THE PERIOD	31,593	63,054	406	0	95,053

(in k€)

31/12/2016	Sector				
	Gas	Electricity	OTHER ACTIVITIES (1)	ORES (2)	TOTAL CONSOLIDATED (3)
Belgian GAAP					
Turnover	187,982	871,300		564,291	1,623,573
Other operating income	4,505	21,039	678	14,042	40,263
Operating expenses	(131,998)	(756,225)	(54)	(574,351)	(1,462,627)
Operating result	60,488	136,115	624	3,982	201,209
Financial income	33	80	1	30,847	30,961
Financial expenses	(22,709)	(43,163)	(6)	(30,847)	(96,726)
Financial result	(22,676)	(43,084)	(5)	0	(65,765)
Others					0
Result before taxes	37,812	93,031	619	3,982	135,444
Taxes	(6,720)	(31,012)	(209)	(3,982)	(41,924)
Transfer to free tax reserves	(133)	(611)			(744)
RESULT FOR THE PERIOD	30,959	61,407	410	0	92,776

[1] *Other activities like supply of goods and services to third parties*
[2] *ORES scrl is 99,72% owned by ORES Assets*
[3] *Consolidated financial statements of the Group without elimination of intercompany transactions*

b) Statement of financial position

(in k€)

31/12/2017	Sector: Gas	Electricity	OTHER ACTIVITIES (1)	ORES (2)	TOTAL CONSOLIDATED (3)
Belgian GAAP					
Non-current assets	1,174,452	2,412,434	680	1,243,940	4,831,506
Property, plant and equipment	1,174,300	2,409,643	665	15,188	3,599,795
Other non-current assets	153	2,791	15	1,228,753	1,231,711
Current assets	96,847	311,208	(19,105)	280,383	669,332
Inventories		11,564		37,204	48,768
Trade receivables	32,524	149,342	(19,105)	51,866	214,626
Cash and cash equivalent	1	9,874		190,053	199,928
Other current assets	64,322	140,428		1,260	206,010
TOTAL ASSET	1,271,299	2,723,642	(18,426)	1,524,323	5,500,838
Equity	490,611	1,108,658	0	511	1,599,780
Share capital	229,166	483,091		458	712,714
Other reserves	261,445	625,567			887,013
Capital subsidy				54	54
Non-current liabilities	687,118	1,348,925	0	1,229,224	3,265,267
Borrowings	677,723	1,332,988		1,220,750	3,231,461
Provisions	9,395	15,937		8,474	33,806
Current liabilities	93,571	266,058	(18,426)	294,587	635,791
Borrowings	26,281	68,451		145,000	239,732
Trade debts	13,265	108,972		74,822	197,059
Other current liabilities	54,025	88,636	(18,426)	74,766	199,001
TOTAL LIABILTY	1,271,299	2,723,642	(18,426)	1,524,323	5,500,838

(in k€)

31/12/2016	Sector: Gas	Electricity	OTHER ACTIVITIES (1)	ORES (2)	TOTAL CONSOLIDATED (3)
Belgian GAAP					
Non-current assets	1,130,374	2,358,181	705	833,683	4,322,942
Property, plant and equipment	1,130,222	2,357,170	690	16,254	3,504,336
Other non-current assets	153	1,010	15	817,429	818,606
Current assets	116,839	304,605	(11,509)	321,760	731,695
Inventories		9,310		33,569	42,880
Trade receivables	34,373	134,503	(11,509)	174,462	331,829
Cash and cash equivalent				112,161	112,161
Other current assets	82,467	160,791		1,568	244,826
TOTAL ASSET	1,247,213	2,662,785	(10,804)	1,155,443	5,054,638
Equity	520,063	1,172,679	0	481	1,693,222
Share capital	256,416	539,563		458	796,436
Other reserves	263,647	633,116			896,763
Capital subsidy				23	23
Non-current liabilities	590,264	1,140,567	0	818,250	2,549,081
Borrowings	583,905	1,129,820		810,750	2,524,476
Provisions	6,359	10,746		7,500	24,605
Current liabilities	136,887	349,540	(10,804)	336,712	812,335
Borrowings	73,222	136,409		189,000	398,631
Trade debts	11,848	95,631	1	62,621	170,101
Other current liabilities	51,816	117,500	(10,805)	85,091	243,602
TOTAL LIABILITY	1,247,213	2,662,785	(10,804)	1,155,443	5,054,638

c) Reconciliation of segment information (established under Belgian GAAP) and the Group financial statements (prepared in accordance with IFRS)

(in k€)

31/12/2017	SEGMENT INFORMATION	GROUP FINANCIAL STATEMENTS	VARIATION
Income statement			
Turnover and regulated balances	1,669,785	1,168,119	(501,666)
Result before taxes	158,847	266,024	107,177
Statement of financial position			
Total asset	5,500,838	4,513,584	(987,255)
Total liability	5,500,838	4,513,584	(987,255)

(in k€)

31/12/2016	SEGMENT INFORMATION	GROUP FINANCIAL STATEMENTS	VARIATION
Income statement			
Turnover and regulated balances	1,623,573	1,141,950	(481,623)
Result before taxes	135,444	215,759	80,315
Statement of financial position			
Total asset	5,054,638	4,313,450	(741,188)
Total liability	5,054,638	4,313,450	(741,188)

The Executive committee of ORES scrl, overseen by the Boards of ORES scrl and ORES Assets, is the most important chief operating decision maker of the Group. In its daily management, it reviews the annual accounts of ORES Assets and ORES scrl prepared under Belgian GAAP. Indeed, the Group operates in a regulated environment in which the financial statements of each entity of the Group, prepared in accordance with Belgian GAAP, for each type of energy (gas and electricity), have an impact on future tariffs. Therefore, the Group is organised into seven operating segments with a distinction between the electricity and gas energy, plus limited activities related to the recovery of past unpaid receivables prior to the market liberalisation (called «supply» activity). The activity of the company ORES scrl is to manage the expenses of ORES Assets; it invoices all its expenses to ORES Assets at cost price and therefore makes no profit.

The operating segments provide identical services to customers of a similar nature in different geographical areas. The activity of each segment is similar depending on the type of energy, so that the operating segments can be grouped into two main areas, namely gas and electricity and another limited activity (supply). These segments are representative of how the Group is managed and correspond to the consolidation criteria set out in IFRS 8 - Operating segments.

DIFFERENCE BETWEEN SEGMENT INFORMATION AND CONSOLIDATED FINANCIAL STATEMENTS OF ORES ASSETS:

- Intercompany transactions, balances, income and expenses between operating segments have been eliminated in full during the consolidation.
- Recognition of dividends (and related withholding tax) when approved by the Shareholders' meeting.
- Provision for employee benefits:
  - (1) Recognition of provisions related to pension plans offered by the Group.
  - (2) No deferral of pension costs taken over from a third party.
- Transfer of assets from customers related to extension work on the network: recognised as income and not as a deduction of property, plant and equipment.

- Intangible assets & property, plant and equipment:

  (1) Depreciation of assets as soon as they are ready for their intended use.

  (2) Adjustment of employee costs capitalised in the value of property, plant and equipment.

- Recognition of the derivative financial instruments at their fair value.

- Recognition of a differed tax on each adjustment.

Most of these differences are fully detailed in the note of transition to IFRS of the Group for its first combined financial statements at the end of December 2012.

INFORMATION RELATED TO THE GEOGRAPHICAL AREAS OF ACTIVITIES

The Group operates exclusively in Belgium, and more particularly in Wallonia. Each segment operates in a specific and exclusive geographic area.

INFORMATION RELATED TO THE MAJOR CUSTOMERS

Two of our customers represent together 69% of the total amount of transit fees in the gas sector in 2017 (72% in 2016).

Regarding the electricity sector, two of our customers represent together 70% of the total amount of transit fees in 2017 (73% in 2016).

NOTES TO THE FINANCIAL POSITION

NOTE 08 - GOODWILL

(in k€)

	31/12/2017	31/12/2016
Acquisition cost	8,955	8,955
Accumulated impairment losses		
	8,955	8,955

Goodwill initially relates to the acquisition of ORES scrl by the eight DSO's (merged on 31 December 2013 to form a unique DSO, ORES Assets). ORES scrl provides services for the DSO and manages all employees of the economic Group consisting of ORES Assets and its subsidiary ORES scrl. The goodwill recognised at the acquisition date corresponds to the know-how of these employees.

As explained in the accounting policies, the cash-generating units (CGU) have been defined as being the seven operating segments by energy.

During the impairment test, the recoverable amount of the CGU is determined by calculating its value in use. This calculation uses cash flow projection based on budgets approved by management. This budget corresponds to the budget approved by the regulator when determining the tariffs.

Cash flows beyond the budget period are extrapolated using a zero growth rate.

The discount rate used to determine the value in use is the rate of return (WACC) determined by the tariff methodology (see note III.A.15 for a description of the regulatory environment).

Based on these assumptions, the value in use determined by the model is approximately equal to the net assets determined in accordance with Belgian GAAP (RAB). However, the net assets determined in accordance with IFRS are systematically lower than the net assets determined in accordance with Belgian GAAP due to the recognition of a provision for pension plans. Accordingly, the value in use is systematically lower than the book value (IFRS) of each CGU. As a consequence, no impairment loss has to be recognised.

NOTE 09 - INTANGIBLE ASSETS

(in k€)

	31/12/2017	31/12/2016
Acquisition cost	100,623	65,313
Accumulated amortisation and impairment	(30,896)	(21,846)
	69,727	43,467

(in k€)

		SOFTWARE	DEVELOPMENT	TOTAL
COST				
Opening balance at 1st January	2016	31,496	12,849	44,345
Additions		14,804		14,804
Additions from internal developments			6,164	6,164
Disposals				0
Opening balance at 1st January	2017	46,300	19,013	65,313
Additions		31,114		31,114
Additions from internal developments			4,957	4,957
Disposals		(761)		(761)
Closing balance	2017	76,653	23,970	100,623
ACCUMULATED AMORTISATION AND IMPAIRMENT				
Opening balance at 1st January	2016	(9,490)	(3,520)	(13,010)
Amortisation expense		(5,769)	(3,067)	(8,836)
Disposals				0
Opening balance at 1st January	2017	(15,259)	(6,587)	(21,846)
Amortisation expense		(5,702)	(4,109)	(9,811)
Disposals		761		761
Closing balance	2017	(20,200)	(10,696)	(30,896)
		56,453	13,274	69,727

a) Amounts of commitments for acquisition of intangible assets

(in k€)

	31/12/2017	31/12/2016
Internal IT projects	8,320	6,979
	8,320	6,979

b) Description of the major intangible assets and the largest movements during the period

The intangible assets acquired or capitalised in 2017 mainly include the development of a new platform Atrias and the development of network and smart metering (Smart Grid/Smart Metering).

Indeed, the technical development of management network, smart metering and other developments highlight the fact that significant development costs are generated and it is likely that they cover periods longer than what was observed in the past. In this context, since 2012, the Group has therefore opted to proceed with the activation of specific expenses related to development activities.

Intangible assets are amortised on a prorate-temporis basis using the linear method over their useful life of 5 years.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

(in k€)

	31/12/2017	31/12/2016
Acquisition cost	6,268,691	6,053,921
Accumulated depreciation and impairment	(2,448,821)	(2,345,493)
	3,819,870	3,708,428
Land & buildings	93,422	90,384
Distribution network	3,691,473	3,585,880
Equipment	34,309	31,473
Other	666	691
	3,819,870	3,708,428

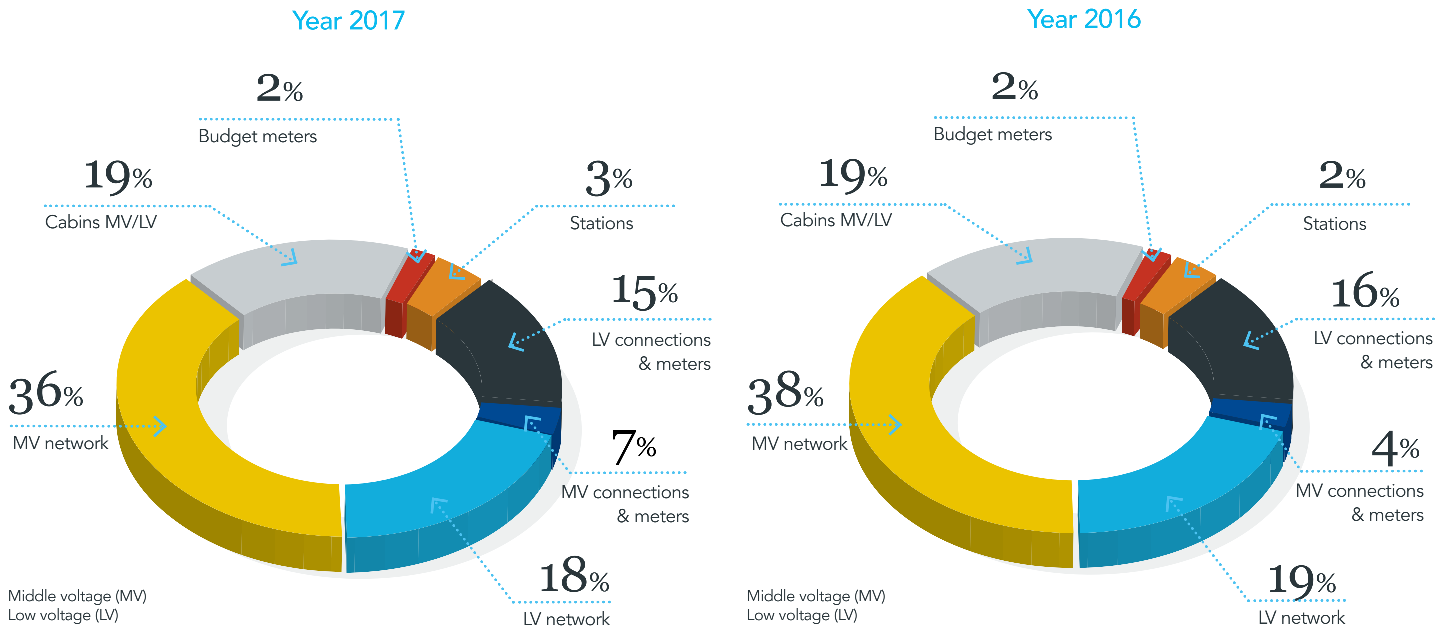
(in k€)

		LAND & BUILDINGS	DISTRIBUTION NETWORK	EQUIPMENT	OTHER	TOTAL
COST						
Balance at 1st January	2016	118,561	5,565,423	141,590	8,307	5,833,881
Additions		3,968	245,662	6,479		256,109
Additions through the contribution from Frasnes-lez-Anvaing		94	7,332			7,426
Disposals		(31)	(39,390)	(4,074)		(43,495)
Reclassification as held for sale		5,854			(5,854)	0
Balance at 1st January	2017	128,446	5,779,027	143,995	2,453	6,053,921
Additions		6,970	244,435	9,269		260,674
Disposals		(3,002)	(40,383)	(2,519)		(45,904)
Closing balance	2017	132,414	5,983,079	150,745	2,453	6,268,691
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance at 1st January	2016	(33,322)	(2,096,989)	(110,550)	(4,003)	(2,244,864)
Depreciation expense		(2,464)	(135,541)	(6,030)	(35)	(144,070)
Disposals			39,383	4,058		43,441
Reclassification as held for sale		(2,276)			2,276	0
Balance at 1st January	2017	(38,062)	(2,193,147)	(112,522)	(1,762)	(2,345,493)
Depreciation expense		(2,170)	(138,885)	(6,377)	(25)	(147,457)
Disposals		1,240	40,426	2,463		44,129
Closing balance	2017	(38,992)	(2,291,606)	(116,436)	(1,787)	(2,448,821)
CARRIED AT COST		93,422	3,691,473	34,309	666	3,819,870
CARRIED AT REVALUED COST						

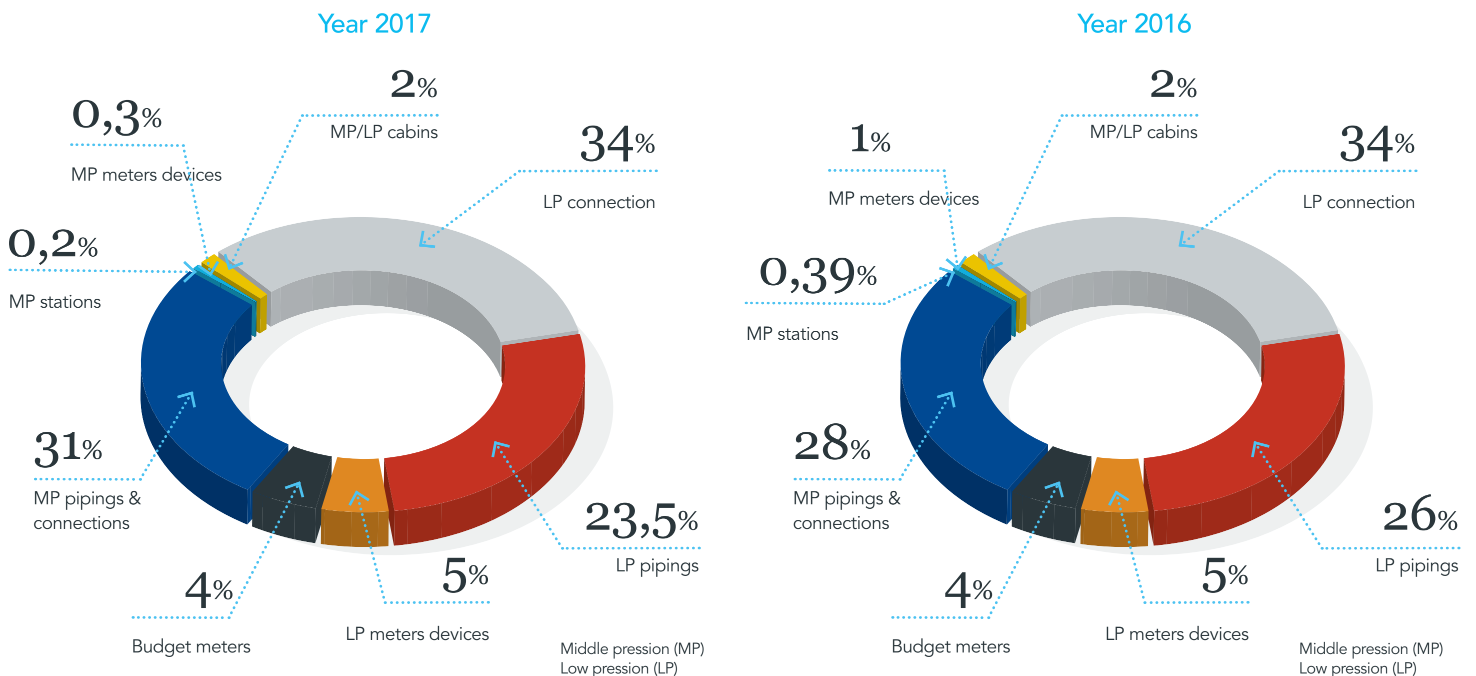
Description of the main property, plant and equipment and the main movements during the year

Investments in the current period as well as in 2016 are mainly related to our network distribution of gas and electricity for an amount of € 244 million on a total investment amount of € 261 million for this year (€ 256 million for 2016), consisting of:

- Electricity: replacement of equipment (52%) and expansion of networks and installations of new cabins (48%) for a total amount of € 177 million (€ 175 million in 2016) :



- Gas: sanitation works (53%) and extensions of the existing network (47%) for a total amount of € 67 million (€ 71 million in 2016) :



(in k€)

AMOUNTS OF COMMITMENTS FOR ACQUISITION OF PPE	31/12/2017	31/12/2016
Electricity distribution network	42,776	68,050
Gas distribution network	12,421	13,143
Constructions & equipments	11,034	15,171
Vehicules	355	1,094
	66,586	97,458

NOTE 11 - FINANCIAL ASSETS

(in k€)

	Non-current		Current	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Financial assets available for sale				
Unlisted equity instruments	841	841		
	841	841	0	0
Financial assets measured at fair value through profit or loss				
Listed equity instruments - Sicav's and options			7,354	8,113
Listed equity instruments - Collar instrument	1,518	1,138		
	1,518	1,138	7,354	8,113
Loans and receivables				
Trade receivables			184,138	191,839
Other receivables	9,634	6,526	53,298	49,031
	9,634	6,526	237,436	240,870
	11,993	8,505	244,790	248,983

Regarding to the purchase in 2017 of a derivative instrument called "Collar", please refer to note 28.

Fair value

The fair value of trade receivables is presumed equal to their carrying value.

NOTE 12 - TRADE, OTHER RECEIVABLES AND CURRENT TAX ASSETS

(in k€)

	Non-current		Current	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Trade receivables				
Distribution			148,057	150,031
Public service obligation (PSO)			49,056	46,169
Other			27,502	30,498
Write downs on trade receivables			(40,477)	(34,859)
	0	0	184,138	191,839
Other receivables				
Interim dividend			47,241	42,614
VAT			1,090	3,368
Public service obligation (PSO)	2,299	509		
Other	7,335	6,017	6,693	5,057
Write downs on trade receivables			(1,726)	(2,008)
	9,634	6,526	53,298	49,031
Current tax assets			78	12,114
	0	0	78	12,114
	9,634	6,526	237,514	252,984

The trade receivables decreased at the end of 2017 (- €7.7 million), mainly due to the write-downs increasing this year (- € 5.6 million - see explanation below).

Concerning the current tax assets, which decreased sharply at the end of 2017 (- €12 million), these mainly consist of various contributions (energy contributions, connection fees) to be recovered. The change compared to 2016 is due to a significant amount of tax credit for the year 2015, recovered by the Group during the year 2017 (see note 24).

(in k€)

LOANS AND RECEIVABLES NOT IMPAIRED	Trade receivables		Other receivables & current tax assets	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Not yet due	145,917	155,154	60,391	65,182
Up to 60 days	6,226	6,774	624	484
61 to 90 days	1,873	1,392	171	123
91 to 180 days	613	197	346	426
> 180 days	2,421	1,714	1,558	1,500
	157,050	165,231	63,090	67,715

(in k€)

MOVEMENT IN THE IMPAIRMENT PROVISION	Trade receivables		Other receivables & current tax assets	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
At 1st january	34,859	35,321	2,008	1,883
Impairment write downs	6,501	3,422	478	125
Reversal of write downs	(883)	(3,884)	(760)	
AT CLOSING BALANCE	40,477	34,859	1,726	2,008

(in k€)

PROVISIONS FOR IMPAIRMENT LOSSES	31/12/2017	31/12/2016
Statement of financial position	(42,203)	(36,867)
Statement of comprehensive income	(10,495)	(9,540)

The majority of our write-downs relate to the protected customers of ORES Assets and the provisional supply of end customers (50% in 2017 versus 48% in 2016), who are without a supply contract or with a supply contract that has been suspended (so-called "supplier X" customers). The other significant part of the amount of write-downs comes from receivables related to frauds on our networks, which represent 21% in 2017 compared to 22% in 2016.

As mentioned in our 2016 annual report, the new rules put in place at the end of 2015 stabilized our write-downs, despite the increase in impairment charges (+ € 5.6 million), this was largely offset by the decrease in our write-offs (- € 4.9 million). This is explained by the fact that a large number of receivables were deemed not recoverable at the end of 2016 for various reasons (insolvency, bankruptcy ...) following the closing of the first recovery market with Iuris Link in September 2016. Since March 2016, all receivables transferred to the second recovery market are still processed by the collection companies (Venturis / IRC).

(in k€)

LOANS AND RECEIVABLES WHICH ARE IMPAIRED	Trade receivables		Other receivables & current tax assets	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Up to 60 days				
61 to 90 days				
91 to 180 days	3,927	4,303		
> 180 days	63,638	57,164	1,646	1,964
	67,565	61,467	1,646	1,964

NOTE 13 - INVENTORIES

(in k€)

	31/12/2017	31/12/2016
Raw materials and furnitures	37,204	33,569
TOTAL GROSS	37,204	33,569
Write downs		
Reversal of write downs		
	37,204	33,569
Inventories expensed in the period (cost of sales)	7,789	7,237
Carrying amount of inventories pledged as security for liabilities		

Inventories are located throughout the Walloon region, the bulk being concentrated in the supply store located in Aye.

Higher inventories within the Group ORES is justified by the material inputs for the Promogaz campaign, the HgHP (public lighting) campaign, as well as the entry of Smart equipment for network cabins in various regions.

NOTE 14 - CASH AND CASH EQUIVALENTS

(in k€)

CASH AND CASH EQUIVALENTS INCLUDE THE FOLLOWING FOR THE PURPOSE OF THE CASH FLOW STATEMENT :	31/12/2017	31/12/2016
Cash at bank and in hand	138,000	59,840
Short-term bank deposits	54,912	44,500
	192,912	104,340

The Group's cash position increased in 2017 (+ € 88.6 million) compared to 2016 following the new loans contracted at the end of the year. Indeed, several new loans were concluded with BNP Paribas (€ 190 million), ING (€ 70 million) and the European Investment Bank (€ 150 million) in order to face the investments of the coming years as well as repayments of bank loans and private placements maturing soon (see note 16).

The term deposits represent a total amount of € 55 million in 2017 and were conducted in accordance with the decisions of the Board of directors to implement a prudent policy in this context.

For a detailed analysis of cash flow, please refer to the consolidated cash flow statement.

NOTE 15 - CAPITAL

(in k€)

		ORES ASSETS		
		SHARE A	SHARE R	TOTAL
NUMBER OF SHARES				
Opening balance	2016	47,829,745	3,659,739	51,489,484
Capital increase		355,201		355,201
Conversion share R to share A		89,860	(89,860)	0
Contribution from the municipality of Frasnes-lez-Anvaing		49,890		49,890
Cease of the municipality of Fourons		(53,523)		(53,523)
Closing balance	2017	48,271,173	3,569,879	51,841,052
Capital increase		810,372		810,372
Capital decrease			(988,040)	(988,040)
Conversion share R to share A		67,279	(67,279)	0
Closing balance	2017	49,148,824	2,514,560	51,663,384
SHARE CAPITAL				
Opening Balance	2016	427,196	365,974	793,170
Capital increase		2,074		2,074
Conversion share R to share A		8,986	(8,986)	0
Contribution from the municipality of Frasnes-lez-Anvaing		1,240		1,240
Cease of the municipality of Fourons		(505)		(505)
Closing balance	2017	438,991	356,988	795,979
Capital increase		15,082		15,082
Capital decrease			(98,804)	(98,804)
Conversion share R to share A		6,728	(6,728)	0
Closing balance	2017	460,801	251,456	712,257
DIVIDEND PER SHARE				
Dividends approved by the Shareholders' meeting	2016	59,370	11,746	71,116
Dividend per share		1.24	3.21	1.38
Dividends approved by the Shareholders' meeting	2017	73,399	10,848	84,247
Dividend per share		1.52	3.04	1.63

Dividends for the period approved by the shareholders' meeting are paid in two parts by the Group. An interim dividend is first paid during the period prior to the approval of the dividends by the shareholders' meeting and the outstanding balance is then paid during the period in which the dividends are approved by the shareholders' meeting.

Therefore, the amount of the dividends disclosed in the consolidated cash flow statement is composed of:

(in k€)

	2017	2016
Amount of dividends from year N-1 paid by the Group in year N = (included withholding tax)	41,634	24,349
Amount of the interim dividend from year N paid by the Group in year N = (after déduction of withholding tax)	47,241	42,614
Disributed amount from available reserves approved by the shareholders' meeting on 21/12/2017	24,360	
	113,235	66,963

As of 21 December 2017, the shareholders'meeting has approved the transfer of € 24.4 million from the available reserves. This amount has been distributed to the shareholders at year-end.

Additional disclosures

As a cooperative company, the capital of ORES Assets is composed of a fixed and a floating part. The fixed part cannot be less than € 18.550 and is fully represented by shares A. Shares A include voting right and right to dividends whereas shares R, with a nominal value of € 100, grant their holder with a right to dividends without voting right. The dividend related to shares R is paid by priority and it is recoverable. Rights and obligations attached to both types of shares are governed by the Company Code, the Local democracy and decentralisation Code and the bylaws of the DSO.

(in k€)

ALLOCATION OF ORES ASSETS SHARE CAPITAL	BALANCE AT 31/12/2017	BALANCE AT 31/12/2016
Fixed A shares	149	149
Floating A shares	460,652	438,842
R shares	251,456	356,988
	712,257	795,979

EQUITY TRANSACTIONS IN 2017

The subscribed capital decreased by € 83.7 million as a result on the one hand, of the repayment of the "R" shares held by the financing associations of municipalities in early January 2017 for € 98.8 million and, on the other hand, the € 21.8 million recapitalization needed to finance the investments for the year. Part of this capital increase (€ 6.7 million) was financed by the conversion of "R" shares into "A" shares.

It should be noted that as of 31 December 2016, Engie / Electrabel sold its stake (25% of the capital) in ORES Assets to the related financing associations of municipalities. Consequently, the DSO is wholly owned by the financing associations of municipalities on 31 December 2016.

NOTE 16 - BORROWINGS

(in k€)

	Carrying amount		Fair value		
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	HIERARCHICAL LEVEL
Unsecured - Non-current					
Bank loans	1,245,448	949,763	1,239,662	940,929	Level 2
Treasury bills - private investment	130,750	130,750	144,187	149,274	Level 2
Bonds	626,758	626,172	799,506	842,184	Level 2
Others	4,486	2,104	4,166	1,946	Level 2
	2,007,442	1,708,789	2,187,521	1,934,333	
Unsecured - Current					
Bank loans	94,734	99,527	94,734	99,527	Level 2
Short-term treasury bills	144,975	129,968	144,975	129,968	Level 2
Treasury bills - private investment	3,212	63,431	3,212	63,431	Level 2
Bonds	10,182	10,182	10,182	10,182	Level 2
Others	410	1,257	410	1,257	Level 2
	253,513	304,365	253,513	304,365	
Total financial liabilities	2,260,955	2,013,154	2,441,034	2,238,698	
Of which : current	253,513	304,365	253,513	304,365	
Of which : non-current	2,007,442	1,708,789	2,187,521	1,934,333	

The increase in financial liabilities in 2017 (+ € 247.8 million) is due to the conclusion of several significant bank loans in 2017 for a total amount of € 410 million. Several floating rate loans were contracted for an amount of € 100 million (hedged by two swaps and a CAP), the remaining part being at fixed rate for an amount of € 310 million, one of which was contracted with the European Investment Bank (EIB).

Indeed, in 2017, the Group obtained from the EIB the setting up of a € 550 million credit facility on which it made a first drawdown of € 150 million at year-end. This borrowing will cover nearly 50% of our investment costs related to network transformation and modernization for the next five years.

Initiated in 2016, the Group continued to restructure its debt by revising its last structured variable rate loans, either by transforming them into hedged variable rate, or by hedging through the purchase of CAP (recognized as financial assets), variable rate loans not yet covered. All these changes are detailed is in the table below showing the repayments by type of rate.

It should be noted that the Group also reimbursed short-term treasury bills with a value of € 100 million maturing in March 2017 and subscribed for new short-term treasury bills totaling € 145 million for a period ranging from 3 to 9 months to cover part of its operational requirements for the first half of 2018.

TREASURY BILLS PROGRAM (PRIVATE PLACEMENTS)

The outstanding amounts to € 189.7 million at 31 December 2016 and the first treasury bills issued in 2012 maturing in 2017 were repaid for an amount of € 59 million. The next repayment is expected in 2019 (see table below).

GLOSSARY OF TERMS USED IN THE SEGMENTATION OF LOANS

- Fixed adjustable rate : borrowing whose rate is fixed for a period longer than a year and within the period of debt repayment. After this period, the rate is revised depending on market evolution.
- Hedged floating rate : floating rate borrowing hedged by a hedging instrument (IRS or CAP).
- Hedged and structured floating rate (still used in 2016): two instruments are included in this category :
    - o Barrier structured products : loans with a fixed rate that is below the standard rate as long as the reference rate (short-term Euribor rate) does not exceed a predetermined rate (the "barrier").
    - o Slope structured products : products whose rate is based on a range of variation between short and long-term rates. The rate is low as long as the difference between the short-term rate and the long term-rate is below a threshold and becomes much higher if it exceeds the threshold.

DESCRIPTION OF THE METHODS USED TO DETERMINE THE FAIR VALUE

- Fixed rate financing : at the end of the reporting period, sum of the future discounted cash flows with capital and interests calculated based on market rates (including the bonds among others) at the end of the reporting period.
- Adjustable fixed rate financing : at the end of the reporting period, the sum of the discounted future cash flows with capital and interests calculated based on market rates at the end of the reporting period.
- Floating rate financing : fair value is presumed equal to the carrying amount at the end of the reporting period.
- Structured financing : the carrying amount at the end of the reporting period for the non-structured part + valuation of the structured part based on the market rates at the end of the reporting period.
- Treasury bills : the fair value is presumed equal to the carrying amount at the end of the reporting period.

a) Repayments are scheduled as follows (by term and type of interest rate)

(in k€)

31/12/2017	FIXED RATE	ADJUSTABLE FIXED RATE	FLOATING RATE	HEDGED FLOATING RATE	STRUCTURED FLOATING RATE	TOTAL
Within one year	183,431	3,537	5,938	60,607		253,513
>1 and <3 years	203,461	7,074	16,572	187,065		414,171
>3 and <5 years	429,763	7,074	10,658	110,708		558,202
>5 and <15 years	227,888	3,984	17,705	456,703		706,280
>15 years	328,789					328,789
	1,373,331	21,668	50,873	815,083	0	2,260,955
31/12/2016						
Within one year	219,057	4,229	17,456	53,329	10,294	304,365
>1 and <3 years	73,692	8,473	34,913	106,467	20,587	244,131
>3 and <5 years	444,497	8,492	39,913	169,111	20,587	682,601
>5 and <15 years	32,089	10,755	162,129	264,472	33,866	503,311
>15 years	278,746					278,746
	1,048,080	31,949	254,412	593,379	85,334	2,013,154

b) Repayments are scheduled as follows (by term and nature of loan)

(in k€)

31/12/2017	SHORT-TERM TREASURY BILLS	BANK LOANS	TREASURY BILLS - PRIVATE INVESTMENTS	BONDS	OTHERS	TOTAL
Within one year	144,975	94,734	3,212	10,182	410	253,513
>1 and <3 years		282,678	130,750		743	414,171
>3 and <5 years		209,490		347,969	743	558,202
>5 and <15 years		703,280			3,000	706,280
>15 years		50,000		278,789		328,789
	144,975	1,340,182	133,962	636,940	4,896	2,260,955

31/12/2016	SHORT-TERM TREASURY BILLS	BANK LOANS	TREASURY BILLS - PRIVATE INVESTMENTS	BONDS	OTHERS	TOTAL
Within one year	129,968	99,527	63,431	10,182	1,257	304,365
>1 and <3 years		192,991	50,750		390	244,131
>3 and <5 years		254,832	80,000	347,426	343	682,601
>5 and <15 years		501,940			1,371	503,311
>15 years				278,746		278,746
	129,968	1,049,290	194,181	636,354	3,361	2,013,154

All borrowings are denominated in euro.

UNUSED CREDIT LINES

The Group has two credit lines of 50 M€ each that have been renewed at the end of 2017 for a period of 3 years and will thus terminate at 31 March 2018.

SUMMARY OF THE MAJOR BORROWINGS INCLUDING INTERETS RATES

(in k€)

	CARRYING AMOUNT		Initial amount	Maturity date	Fixed / Floating rate	Interest rate applicable at closing 2017	IRS - Notionnel	IRS - Fair value	Maturity date	Maturity date - Swap-CAP	Interest rate applicable at closing 2017
	31/12/2017	31/12/2016									
Borrowing 1 - MP 2008	56,056	66,186	118,030	2029	Floating	0.43%	CAP 1%	37,104	195	31/05/23	0.43%
Borrowing 2 - KP 2008	34,013	40,197	134,830	2029	Floating	0.49%	CAP 1%	16,800	87	31/12/24	0.49%
Borrowing 3 - FP50 2008	278,029	306,370	505,807	2030	Floating	3.56%	SWAP + CAP	179,827	4,829	31/12/19 for the swap and 30/04/2023 for the CAP	Fixed rate 3.56%
Borrowing 4 - MP FP 2010	71,900	71,900	71,900	2020	Floating	2.33%	SWAP	25,000	1,862	31/12/20	Fixed rate 2.33%
Borrowing 5 - MP 2011	5,183	36,965	153,318	2021	Floating	1.73%	SWAP	5,183	236	31/12/21	Fixed rate 1.73%
Borrowing 6 - Sedilec 1	15,000	17,500	50,000	2024	Floating	0.79%					
Borrowing 7 - Sedilec 2	28,640	32,220	71,600	2026	Fixed	1.06%					
Borrowing 8 - Sedilec 4	13,335	14,669	26,670	2029	Fixed	0.55%					
Borrowing 9 - MP ORES 2016 - Lot 1	40,000		40,000	2023	Floating	0.35%	SWAP	40,000	123	29/12/23	Fixed rate 0.42%
Borrowing 10 - MP ORES 2016 - Lot 2	50,000	50,000	50,000	2024	Floating	0.37%	SWAP	50,000	(25)	31/12/14	Fixed rate 0.54%
Borrowing 11 - MP ORES 2016 - Lot 3	30,000		30,000	2025	Floating	0.40%	SWAP	30,000	140	31/12/15	Fixed rate 0.66%
Borrowing 12 - MP ORES 2016 - Lot 4	30,000		30,000	2025	Floating	0.31%	CAP	27,546	(186)	30/06/22	0.31%
Borrowing 13 - MP ORES 2017 - Lot 1	35,000		35,000	2020	Fixed	0.18%					
Borrowing 14 - MP ORES 2017 - Lot 2	45,000		45,000	2022	Fixed	0.51%					
Borrowing 15 - MP ORES 2017 - Lot 3	40,000		40,000	2026	Fixed	1.05%					
Borrowing 16 - MP ORES 2017 - Lot 4	40,000		40,000	2027	Fixed	1.17%					
Bond issued in 2012	351,420	350,878	350,000	2021	Fixed	4.00%					
Bond issued in 2014	80,782	80,760	80,000	2044	Fixed	4.00%					
Bond issued in 2015	102,470	102,460	100,000	2045	Fixed	3.00%					
Bond issued in 2015	102,269	102,258	100,000	2045	Fixed	2.85%					
Long-term treasury bills	133,962	194,181	133,962	between 2017 & 2020	Fixed	between 3.43% & 4.04%					
EIB loan	150,000		150,000	2036	Fixed	1.12%					
	1,733,058	1,466,544	2,356,117					411,460	7,261		

Classic bank loans contracts of the Group, with the exception of the EIB loan, are not subject to specific covenants (ratio, etc.).

With respect to the EIB loan, it is subject to 3 ratios on the basis of the consolidated accounts established under the Belgian accounting principles (BGAAP):

• EBITDA / Debt Service equal to or greater than 1.3;

• Net debt / equity less than or equal to 1.5;

• Equity / consolidated balance sheet total greater than or equal to 0.3.

The Group respects these three ratios at the end of 2017.

Concerning the bond issues, the Group must maintain a ratio of 30% of shareholders' equity to the balance sheet total at both the statutory level of ORES Assets and at the consolidated level in Belgian GAAP. This ratio is an integral part of the bylaws of ORES Assets (see the management of capital in note 31).

NOTE 17 - OTHER FINANCIAL LIABILITIES

(in k€)

	Non-current		Current	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Financial liabilities measured at fair value through profit or loss				
Derivatives instruments - IRS	9,986	18,177		2,150
	9,986	18,177	0	2,150
Financial liabilities measured at amortised cost (excluding borrowings)				
Trade payables			159,297	156,020
Other payables	27		54,283	70,618
	27	0	213,580	226,638
	10,013	18,177	213,580	228,788

Fair value
The fair value of trade payables corresponds to their carrying value.

	31/12/2017	31/12/2016
Average credit period for trade payables (days)	50	50

The significant decrease in other debts (- € 16.3 million) comes on the one hand, from repayment of the balance of the current account to RESA (- € 10.3 million) following the complete takeover of activities as of the network operator in the City of Liège and on the other hand, from the repayment of certain bank loans maturing at the end of 2016 but withdrawn only in early 2017 (- € 6.2 million).

For an explanation of the derivative financial liabilities, see note 28.

NOTE 18 - OTHER PAYABLES & OTHER LIABILITIES

(in k€)

	Carrying amount	
	31/12/2017	31/12/2016
Social security and other tax payables	15,632	19,468
Short-term employee benefits & accruals	33,436	34,630
Accrued charges	608	1,058
Deferred income	75	1,087
Derivatives - IRS	9,986	20,327
Others	7,336	19,341
	67,073	95,911
Of which : non-current	9,986	18,177
Of which : current	57,087	77,734

For further explanation on the pension provisions and short-term employee benefits, we refer to the note 20.

For a more detailed explanation of derivatives, see note 28.

For an explanation of the decrease in other debts, see note 17.

NOTE 19 - PROVISIONS

(in k€)

	31/12/2017	31/12/2016
Depollution	5,654	5,342
Others	28,016	19,360
	33,670	24,702
of which: current		
of which: non-current	33,670	24,702

2017

MOVEMENT IN THE PROVISIONS (EXCLUDING EMPLOYEE BENEFITS)	DEPOLLUTION	OTHERS	TOTAL
At 1st January	5,342	19,360	24,702
Additional provisions recognised	312	9,975	10,287
Amounts used in the period		(137)	(137)
Amounts reversed during the period		(1,182)	(1,182)
At end of the period	5,654	28,016	33,670
of which: current			0
of which: non-current	5,654	28,016	33,670

2016

MOVEMENT IN THE PROVISIONS (EXCLUDING EMPLOYEE BENEFITS)	DEPOLLUTION	OTHERS	TOTAL
At 1st January	5,342	20,767	26,109
Additional provisions recognised			0
Amounts used in the period		(1)	(1)
Amounts reversed during the period		(1,406)	(1,406)
At end of the period	5,342	19,360	24,702
of which: current			0
of which: non-current	5,342	19,360	24,702

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and if it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

DEPOLLUTION

The implementation of the decree dated 5 December 2008 related to soil management could justify some expenses related to soil pollution clean-up on some polluted sites. Under these circumstances, the Group takes appropriate measures in terms of soil pollution prevention and in terms of information about the existence of pollution. Provisions are recorded in this respect.

In this regard, five sites have been subject to an orientation study in 2012 which demonstrated the existence of pollution exceeding the thresholds defined by the soil decree. Under the application of article 5 of this decree, the Group has notified the administration and municipalities and has booked provisions based on the estimates established by the independent expert in the frame of this study.

In 2017, a new site was also studied to determine the cost of future clean-up. Following this, a new provision of € 0.3 million was booked.

OTHERS

Due to this activities, the Group is also exposed to legal risks. Provisions for litigations are frequently updated in agreement with the Group's legal department. The amount recognised as a provision is the Group's best estimate of the consideration required to settle the present obligation.

In 2015, €12.8 million accrual was recognized for some legal or regulatory obligations. Indeed, a decree published by the Walloon Government requires the digitalization of the network maps; whereas the Group also covered the application risks associated with the transition to new IT systems necessary for the market processes and their evolution.

Following new analysis in 2017, the Group decided to increase these provisions by € 3.1 million. A new provision of € 4.9 million was also booked for the "Atrias" project.

NOTE 20 - EMPLOYEE BENEFITS – GENERAL

(in k€)

STATEMENT OF FINANCIAL POSITION	31/12/2017	31/12/2016
Non-current		
Pension benefits - funded plans	(211,793)	(166,997)
Pension benefits - unfunded plans	14,083	15,045
Other post-employment benefits	99,337	96,036
Other long-term benefits	32,758	38,905
	(65,615)	(17,011)
Effect of the assets ceiling	168,383	123,716
	102,768	106,705
Current		
Short-term employee benefits	33,436	34,630
	33,436	34,630
	136,204	141,335

(in k€)

STATEMENT OF COMPREHENSIVE INCOME	31/12/2017	31/12/2016
Wages and salaries	138,844	141,829
Social security contributions	38,546	41,170
Pension expenses and other long-term benefits	10,111	9,842
Other social expenses	14,505	14,284
Of which included in the cost of PP&E	(72,312)	(69,309)
	129,694	137,816

AVERAGE NUMBER OF PERSONNEL	31/12/2017	31/12/2016
Employees - total full-time equivalent	2,324	2,374

A description of the employee benefits is disclosed in the accounting policies (see III.A.11).

Post-employment benefits consist mainly of tariff reductions and health care benefits granted to employees after retirement.

Other long-term benefits include jubilee benefits granted to executives and employees.

NOTE 21 - EMPLOYEE BENEFITS - DEFINED BENEFIT PLANS

PENSION PLANS WITH DEFINED BENEFITS COVERED BY PLAN ASSETS

PENSIOBEL / ELGABEL

Various defined benefit pension plans exist within ORES scrl and are governed by the Joint Committee of the Gas and Electricity Sector (CP 326). These are the pension plans Pensiobel and Elgabel. In most cases, they are intended for wage-rated staff recruited before 1st January 2002 and for senior and management staff recruited before 1st May 1999 under a contract of indefinite duration and benefiting from the status of Gas and Electricity. The retirement capital that will be paid to workers depends to a large extent on the number of years and months of service performed under an employment contract at the normal retirement age even in the event of an anticipation (this seniority is supplemented if necessary by an Additional seniority established by the CTC and the 2007-2008 framework agreement) and the salary of the staff member at retirement age. In the event of the death of the agent before retirement, a death benefit will be paid to his beneficiaries as well as an annual pension to each child of the agent under 25 years of age. These commitments are included in the "financed plans" section.

POWERBEL/ENERBEL

Two other pension plans, formerly viewed as defined contributions, also exist within the Group, one plan also for management and executive staff hired from 1st May 1999 or having opted for the scheme as at 1st January 2007 (Powerbel), and the other for the baremaded staff hired since 1st January 2002 (Enerbel).

Following the change in the law on supplementary pensions (LPC 28/4/2003 - Art 24), which came into force on 1st January 2016 and now required to guarantee the same minimum rate of return on employer and personal contributions (new formula based on the OLO Belgian rate with a minimum threshold set at 1.75% and a maximum threshold set at 3.75%). A reflection within the ORES Group was initiated and led to the recognition, from 1st January 2016, the Powerbel and Enerbel pension plans as defined benefit plans. These two plans, which grant a capital amount at pension age as determined by the amount of the premiums paid and the return that is attributed to them, are described below.

ENERBEL

The employee contribution is a step rate formula equal to 0.875% of the portion of the salary below a ceiling plus 2.65% of the portion of the salary above this ceiling. This contribution is deducted monthly from the salary of the affiliates. The employer contribution is equal to 3 times the employee contribution and is paid into the pension funds.

POWERBEL

Personal contribution is determined based on a rate by level, equal to 0.6% of the remuneration that lower than a specific threshold, increased by 4.6% for the part of the remuneration above the threshold. This contribution is monthly deducted from the salary of the employee. The employer contribution is equal to 4 times the employee contribution.

Since 2016 (without retroactive effect), we have applied the Projected Unit Credit Method (PUC - without projection of future premiums) as recommended by IAS 19 to recognize these two pension plans. They are also included under the heading "funded plans".

While in 2016, we used the same discount rate to evaluate our employee benefits related to the new status pension plans and post-employment benefits, in 2017, the Group decided to apply a different rate for post-employment benefits. Indeed, given the duration of these plans, different from the one related to the pension plans of the new statutes (18 years for post-employment benefits versus 20 years for pension plans), it was no longer consistent to keep the same discount rate. Thus, since this year, three discount rates have been applied to evaluate our employee benefits (see the table below relating to our actuarial assumptions).

"OVERHEADS" PLAN

This scheme, which was closed on 1st January 1993, was designed to grant a retirement pension at 75% of the last salary for a full career, after deduction of the statutory pension. In the event of death, the pension is reversible to 60% in favor of the surviving spouse. For orphans, the pension is set at 15% of the retirement pension or 25% for orphans of father and mother (maximum 3 orphans). For employees benefiting from this plan and still active as at 1st January 2007, acquired vested pension rights are established for the career after that date in the OFP Elgabel.

In 2016, the Group decided to finance this plan as well and it was therefore reclassified as a "funded plan".

PENSION PLAN WITH DEFINED BENEFITS NOT COVERED BY PLAN ASSETS

Given the reclassification of the "overheads" plan in the category of "funded plans", this heading only includes the benefits granted by the Group to the retirement of agents such as health care reimbursement and tariff benefits as well as commitments related to persons placed in unavailability.

Defined Contribution Plans (Enerbel and Powerbel) expose the employer to investment risk. As said before, since 1st January 2016, the legislation imposes a minimum return guarantee had to be realized on the employer and employee contributions upon payment of the commitment (Based on the Belgian OLO rate with a minimum threshold set at 1.75% and a maximum threshold set at 3.75%).

Until June 30, 2016 (Enerbel) and September 30, 2016 (Powerbel), employee contributions were paid to a group insurance (Contassur s.a.-branch 21-deferred capital without repayment). Since then, it was paid into a pension fund that no longer guarantees minimum returns. As a result of this change, reserves accumulated in individual group insurance contracts were also transferred to the pension fund at a guaranteed rate of 3.25%.

It should also be noted that since January 1st, 2017, Contassur changed its guaranteed interest rate to 0% for leveled annual premiums and 0.5% for successive one-time premiums.

(in k€)

STATEMENT OF FINANCIAL POSITION	31/12/2017	31/12/2016
Present value of the defined benefit obligations / funded plans	315,071	300,551
Plan assets	(526,864)	(467,548)
Deficit / (surplus)	(211,793)	(166,997)
Present value of the other long-term benefits / funded plans	42,978	49,328
Plan assets of the other long-term benefits	(10,220)	(10,423)
Deficit / (surplus)	32,758	38,905
Present value of the defined benefit obligations/unfunded plan	113,420	111,081
Effect of the asset ceiling	168,383	123,716
NET LIABILITY ARISING FROM DEFINED BENEFIT OBLIGATION	102,768	106,705
REIMBURSEMENT RIGHTS	(1,674)	(2,009)
STATEMENT OF COMPREHENSIVE INCOME		
Service cost		
Current service cost	14,137	12,509
	14,137	12,509
NET INTEREST ON THE NET DEFINED BENEFIT LIABILITY/(ASSET)		
Interest cost on the defined benefit obligation	5,925	8,310
Interest income on plan assets	(6,330)	(8,297)
Interest on the effect of the asset ceiling	1,651	2,654
	1,246	2,667
DEFINED BENEFIT COST RECOGNIZED IN PROFIT OR LOSS	15,383	15,176

(in k€)

REMEASUREMENTS OF NET DEFINED BENEFIT LIABILITY/(ASSET) RECOGNISED IN OTHER COMPREHENSIVE INCOME (OCI)	31/12/2017	31/12/2016
Actuarial (gains)/losses on defined benefit obligation arising from :		
i) changes in demographic assumptions	26,097	(65,602)
ii) changes in financial assumptions	11,227	33,796
iii) experience adjustments	(27,849)	49,711
iv) subtotal	9,475	17,905
i) Return on plan assets excluding interest income on plan assets	(8,220)	(43,465)
ii) changes in financial assumptions	0	0
iii) change in the effect of the asset ceiling excluding interest on this effect	43,016	(9,317)
iv) subtotal	34,796	(52,782)
	44,271	(34,877)
(REVENUES)/EXPENSES ON DEFINED BENEFIT PLANS	59,654	(19,701)

The € 26.1 million increase in demographic assumptions is partly linked to changes in early retirement age but also to the increase of turnover for staff hired as "new statutes", from 1% to 2%.

In terms of financial assumptions, the actuarial expense related to the reduction in the three discount rate is offset by a decrease in our pension obligations resulting from a downward revision of our salary growth assumptions.

Concerning the plan assets, the actuarial expense that appears in 2017 at the level of the change in the effect of the asset ceiling (€ 43 million) offsets the increase in our plan assets in 2017, which increase from € 467.5 million to € 526.9 million.

(in k€)

MOVEMENTS IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION WERE AS FOLLOWS	31/12/2017	31/12/2016
Opening balance	411,632	397,914
Current service cost	12,748	12,509
Interest cost	5,925	8,310
Contributions from plan participants	1,389	1,434
Actuarial (gains)/losses arising from :		
i) changes in demographic assumptions	26,097	(65,602)
ii) changes in financial assumptions	11,227	33,796
iii) experience adjustments	(27,849)	49,711
Past service cost	0	0
Benefits paid	(12,678)	(26,440)
CLOSING BALANCE	428,491	411,632

(in k€)

MOVEMENTS IN THE FAIR VALUE OF THE PLAN ASSETS WERE AS AS FOLLOWS	31/12/2017	31/12/2016
Opening balance	467,548	380,583
Interest income on plan assets	6,330	8,297
Return on plan assets excluding interest income on plan assets	8,220	43,465
Contributions from employer	55,363	60,209
Contributions from plan participants	1,389	1,434
Benefits paid	(11,986)	(26,440)
Closing balance	526,864	467,548
ACTUAL RETURN ON PLAN ASSETS	14,550	51,762

(in k€)

MAIN ACTUARIAL ASSUMPTIONS USED FOR THE PURPOSE OF THE ACTUARIAL VALUATIONS WERE AS FOLLOWS	31/12/2017	31/12/2016
Discount rate on pension plans related to old contracts	1.18%	1.28%
Discount rate on pension plans related to new contracts	1.66%	1.77%
Discount rate on tariff benefits and health care	1.63%	1.77%
Future salary increases - employees with old contract (outside inflation)	0.87%	0.98%
Future salary increases - employees with new contract (outside inflation)	2.36%	3.25%
Turnover of employees with old contract	1.00%	1.00%
Turnover of employees with new contract	2%	1%
Medical cost increase (outside inflation)	1%	1%
Increase of average cost of tariff reductions	1.75%	1.75%
Inflation rate	1.75%	1.75%
Average assumed retirement age for old contracts	63 years	63 years
Average assumed retirement age for new contracts	67 years	67 years
Mortality table used for active employees	IA/BE prospective table	IA/BE prospective table
Mortality table used for retirees	IA/BE prospective table	IA/BE prospective table
Life expectancy in years of a pensioner retiring at age 65:		
For a person aged 65 at closing date:		
Male	22.5	22.5
Female	22	22
For a person aged 65 in 20 years:		
Male	22.3	22.3
Female	26	26

(in k€)

BREAKDOWN OF DEFINED BENEFIT OBLIGATION BY TYPE OF PLAN PARTICIPANTS	Defined benefit obligation 31/12/2017	Defined benefit obligation 31/12/2016
Active plan participants	286,131	264,544
Terminated plan participants with deferred benefit entitlements	5,742	4,273
Retired plan participants and beneficiaries	136,618	142,815
	428,491	411,632

(in k€)

BREAKDOWN OF DEFINED BENEFIT OBLIGATION BY TYPE OF BENEFITS	Defined benefit obligation 31/12/2017	Defined benefit obligation 31/12/2016
Retirement and death benefits	329,154	315,596
Other post-employment benefits (medical and tariff reductions)	99,337	96,036
	428,491	411,632

(in k€)

MAJOR CATEGORIES OF PLAN ASSETS	Fair value of plan assets 31/12/2017	Fair value of plan assets 31/12/2016
With a quoted market price in an active market	459,315	420,732
Shares (Eurozone)	54,675	99,364
Shares (Outside eurozone)	116,064	122,687
Government bonds (Eurozone)	36,629	4,466
Other bonds (Eurozone)	194,801	101,255
Other bonds (Outside eurozone)	57,146	92,960
With a no quoted market price in an active market	67,549	46,816
Cash and cash equivalents	5,263	365
Real property	13,910	22,383
Qualifying insurance contract		1,807
Other	48,376	22,261
	526,864	467,548

(in k€)

SENSITIVITY ANALYSIS FOR EACH SIGNIFICANT ACTUARIAL ASSUMPTION ON DEFINED BENEFIT OBLIGATION	Defined benefit obligation 31/12/2017	Defined benefit obligation 31/12/2016
Discount rate plus 0.50%	(24,302)	(24,125)
Salary increase plus 0.50% (outside inflation)	9,074	18,886
Medical cost increase plus 1%	13,251	15,891
Increase of average cost of tariff reductions plus 0.50%	4,414	5,848
Inflation plus 0.25%	17,561	10,112
1 year age correction to "male" mortality tables	2,752	2,691
1 year age correction to "female" mortality tables	6,591	6,444
Weighted average duration of the defined benefit obligation related to old contracts and to other long term benefits (in years)	10	10
Weighted average duration of the defined benefit obligation related to new contracts (in years)	20	17
Weighted average duration of the defined benefit obligation related to other post-employment benefits (in years)	18	17
Expected contributions during the next period for DB plans related to old contracts	4,451	19,754
Expected contributions during the next period for DB plans related to new contracts	5,820	5,689

Each year the discount rate used to calculate pension obligations against minimum funding requirements is compared with the expected return on assets under management according to the sponsor's investment policy.

The expected rate of return is obtained on the basis of a risk-free market rate defined by the financial markets at the time of closing, based on a risk premium linked to each category of investment in the portfolio and the related volatility. If the expected rate of return is lower than the discount rate, the discount rate is adjusted to the expected rate of return.

Annually, a stress test is performed. This allows to check whether the minimum financing needs are covered despite a rate change of 0.5%.

Most beneficiaries contribute to the funding of the pension plans by paying a personal contribution (a progressive rate formula a% t1 + b% t2) deducted monthly from their remuneration.

Defined benefit pension plans are also financed by the employer via a recurring allocation as a percentage of the total remuneration of the affiliates. This percentage is defined using the aggregate cost method and is reviewed annually. This method involves allocating future costs over the remaining period of the plan. Costs are estimated on the basis of projections taking into account, in particular, wage developments and inflation. Assumptions relating to the salary increase, inflation, staff turnover and retirement age are defined on the basis of statistics available to the company. The mortality tables used are those that correspond to the facts observed for the plan concerned. The discount rate is determined in the light of the company's investment strategy. All these assumptions are regularly reviewed.

Some exceptional events, such as modifying a plan, changing assumptions, too small coverage by plan assets, etc. may result in exceptional sponsor payments.

In 2017, the discount rate for the Elgabel and Pensiobel pension plans decreased from 1.28% to 1.18% as a result of the 10-year high yield corporate bond yield (AAA). The average duration of the Elgabel / Pensiobel defined benefit plans is around 10 years, a relatively short period due to the fact that these plans are closed and the benefits are paid in the form of capital and not in annuities.

As for the Powerbel and Enerbel pension plans, since they have an estimated duration of 20 years, the discount rate was set at 1.66% (1.77% in 2016 – Meryll Lynch ER 29).

DESCRIPTION OF THE RISKS TO WHICH DEFINED BENEFIT PLANS ARE CONFRONTED

Defined benefit plans expose the company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

INVESTMENT RISK

The present value of defined benefit plan commitments is calculated using a discount rate determined by reference to high quality corporate bonds. If the rate of return on plan assets is lower than the discount rate, this will result in a plan deficit. As far as we are concerned, the investments have been made with a lot of diversity and in a very balanced way:

	ELGABEL %	PENSIOBEL %	INSURANCE COMPANIES %	POWERBEL %	ENERBEL %	TOTAL %
Investments quoted in an active market	86.87	80.32	77.28	87.31	85.79	85.52
Shares (Eurozone)	8.81	16.68	6.62	12.42	13.90	10.18
Shares (Outside eurozone)	22.40	21.49	0.00	24.71	25.61	21.61
Government bonds (Eurozone)	6.80	4.15	20.47	5.43	5.26	6.82
Other bonds (Eurozone)	37.16	29.71	50.19	34.57	31.51	36.27
Other bonds (Outside eurozone)	11.70	8.29	0.00	10.19	9.51	10.64
Unquoted investments	13.13	19.68	22.72	12.69	14.21	14.48
Property	2.08	3.71	7.08	3.07	3.43	2.59
Qualifying insurance contracts	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	1.08	0.52	2.22	0.16	0.19	0.98
Other	9.97	15.45	13.42	9.46	10.59	10.91
TOTAL IN %	100.00	100.00	100.00	100.00	100.00	100.00
TOTAL IN THOUSANDS OF €	401,283	78,850	20,113	17,712	19,126	537,084

Due to the long-term nature of the plan commitments, the Board of directors of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

INTEREST RISK

A decrease in the bond interest rate will increase the plan liability. However, this will be partially offset by an increase in the return on the plan's debt investments.

LONGEVITY RISK

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Since 2015, ORES Group applies the new prospective mortality tables published by the official Belgian Institute of Actuaries ("Institut des Actuaires / Instituut van Actuarissen").

SALARY RISK

The present value of the defined benefit plan commitments is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

NOTE 22 - LEASES (LESSEE)

(in k€)

OPERATING LEASES	31/12/2017	31/12/2016
Payments recognised as an expense in the income statement		
Mimimum lease payments	20,583	18,659
Sub-lease payments received	(3,575)	(3,149)
	17,008	15,510
Maturity of outstanding commitments under non-cancellable operating leases with a term of more than one year		
Within one year	5,966	6,701
>1 and <2 years	4,067	4,304
>2 and <5 years	3,307	4,622
>5 years	82	288
	13,422	15,916

There are no liabilities recognised in respect of non-cancellable operating leases.

Lease payments mainly include:

- The lease of office buildings;
- The lease of cars for executives and management;
- The lease of IT hardware & software licence (PC, laptop, printer, licenses, ...) ;
- Fees paid for the use of optical fibers.

Long-term commitments are mainly related to the lease of administrative buildings and of vehicles for executives and management.

NOTE 23 - CURRENT TAXES

(in k€)

TAXES RECOGNIZED IN THE INCOME STATEMENT	31/12/2017	31/12/2016
Current income tax expense in respect of the period	62,604	50,085
Adjustments recognised in the current period in relation to the current tax of prior years	444	(8,212)
Tax payable on interests received	1	51
Current tax expense	63,049	41,924
Deferred tax expense (income) relating to origination and reversal of temporary differences	4,647	16,672
Deferred tax expense (income)	4,647	16,672
TOTAL TAX IN THE INCOME STATEMENT	**67,696**	**58,596**

The significant increase in the current tax expense recognised in the income statement (+ € 21.1 million) is mainly due to the decrease in the notional interest rate, from 1.131% to 0.237%, an impact on the tax expense of € 2.6 million, and the increase in non-permitted expenses (€ 4.5 million impact). It is also due to a lower adjustment to the previous tax expense (+ € 8.7 million); the 2016 adjustment came mainly from the substantial exemption calculated on reversals of write-downs on trade receivables booked prior to the changeover to corporate income tax.

It should be noted that the Group has again benefited from a tax credit (€ 13 thousand) related to the tax shelter by participating in the production of a Belgian audiovisual work to be produced in 2018.

In terms of deferred taxes, the downward evolution can be explained first of all by the impact of the change in the corporate income tax rate expected in 2018, progressively decreasing from 33.99% to 25% as of 2020. Indeed, following the adoption of the law on the tax reform of 25 December 2017 (published in the Belgian Official Journal on 29 December 2017), the tax rate will be decreased to 29.58% for the years 2018 and 2019 and 25% from the year 2020. This rate reduction had a positive impact of € 24.3 million on deferred taxes (see table below).

This is partially offset by the higher deferred tax expense due in particular to the downward evolution of our provisions for employee benefits and the recording as income of the indemnity covering the share of the pension obligations paid anticipatively by ORES to Electrabel (see note 02).

(in k€)

THE RECONCILIATION OF THE EFFECTIVE TAX RATE WITH THE THEORETICAL TAX RATE SHOULD BE SUMMARIZED BELOW	31/12/2017	31/12/2016
Result before taxes	266,024	215,759
Tax rate applicable in Belgium	33.99%	33.99%
Theoretical tax	90,422	73,336
Adjustments:		
Taxes on non-deductible expenses	4,213	(260)
(Income) arising from the use of notional interests	(619)	(3,172)
Tax credit linked to tax shelter	(13)	(13)
Expense arising from the recognition or the reversal of previous temporary differences		
Income arising from the recognition or the reversal of previous temporary differences	(2,489)	(3,134)
(Income) arising from the future reduction in tax rate	(24,263)	
Tax payable on interests received	1	51
	(23,170)	(6,528)
Adjustments recognised on the current period in relation to the current tax of prior years	444	(8,212)
TOTAL TAX DURING THE PERIOD	**67,696**	**58,596**
AVERAGE EFFECTIVE RATE	**25.45%**	**27.16%**

(in k€)

INCOME TAXES RECOGNISED IN OTHER COMPREHENSIVE INCOME SHOULD BE DETAILED BELOW	31/12/2017	31/12/2016
Charge (Profit) on fair value of hedging instruments entered into for cash flow hedges	3,515	3,267
Charge (Profit) on DB pension plans deferred tax expense (income)	(15,048)	11,854
(Income) arising from the future reduction in tax rate	(56,562)	
TOTAL INCOME TAX IN OTHER COMPREHENSIVE INCOME	(68,095)	15,121

As a reminder, temporary differences arising from assets and liabilities whose changes are recognised in other comprehensive income have also been recognised in this caption as prescribed by IAS 12 – Income taxes (see also the IFRS 2014 and 2015 Annual Report for further details).

This is particularly the case for the outstanding hedging IRS at the end of 2017, for which a favorable assessment of fair value has led to a downward variation of the deferred tax asset recognized at the end of 2017, generating a deferred tax expense of € 3.5 million (see note 27). Conversely, this year's actuarial gains and losses are unfavorable to the Group (- € 44.3 million - see note 21) and resulted in the recognition of deferred tax income of € 15.1 million.

As explained above, following the adoption of the law on the tax reform, the impact of the future tax rate change let us to record a deferred tax income of € 56.7 million at the end of 2017. As shown in the table in note 24, this income is largely due to the impact of the change in the rate on the deferred tax liability related to the revaluation of property, plant and equipment (+ € 67.8 million), of which the initial movement was recorded in other comprehensive income (see 2014 Annual Report).

NOTE 24 - DEFERRED TAXES

(in k€)

OVERVIEW OF DEFERRED TAX ASSETS AND LIABILITIES BY TYPE OF TEMPORARY DIFFERENCE	ASSETS		LIABILITIES		NET	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Intangible assets			(2,542)	(2,049)	(2,542)	(2,049)
Property, plant and equipment			(73,059)	(84,611)	(73,059)	(84,611)
Property, plant and equipment - revaluation			(208,795)	(283,380)	(208,795)	(283,380)
Other non-current assets			(379)	(387)	(379)	(387)
Other current assets	13,193	18,716			13,193	18,716
Provisions for employee benefits	25,692	36,269			25,692	36,269
Borrowings			(233)		(233)	0
Other provisions			(34)	(343)	(34)	(343)
Other non-current liabilities	2,496	6,178			2,496	6,178
Other current liabilities		142	(2,356)		(2,356)	142
Total temporary differences	41,381	61,305	(287,398)	(370,770)	(246,017)	(309,465)
Deferred tax assets/(liabilities)	41,381	61,305	(287,398)	(370,770)	(246,017)	(309,465)
Offsetting of tax[1]	(41,381)	(61,305)	41,381	61,305	0	0
TOTAL NET	0	0	(246,017)	(309,465)	(246,017)	(309,465)

[1] As prescribed by IAS 12 – Income taxes, deferred tax assets and liabilities must be offset under certain conditions if they relate to income taxes due to the same tax authority.

(in k€)

MOVEMENT OF DEFERRED TAX BALANCES	OPENING BALANCE	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN OTHER COMPRE-HENSIVE INCOME	RECOGNISED DIRECTLY IN EQUITY	CLOSING BALANCE
Temporary differences					
Intangible assets	(2,049)	(493)			(2,542)
Property, plant and equipment	(84,611)	11,552			(73,059)
Property, plant and equipment - revaluation	(283,380)	6,912	67,673		(208,795)
Other non-current assets	(387)	8			(379)
Other current assets	18,716	(5,523)			13,193
Provisions for employee benefits	36,269	(15,412)	4,835		25,692
Other provisions	(343)	309			(34)
Other non-current liabilities	6,178		(3,682)		2,496
Borrowings		(233)			(233)
Other current liabilities	142	(1,767)	(731)		(2,356)
	(309,465)	(4,647)	68,095	0	(246,017)
Tax credits and tax losses carried forward					
Tax credits					0
Tax losses carried forward	0	0	0	0	0
TOTAL NET	(309,465)	(4,647)	68,095	0	(246,017)

RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS FOLLOWS	31/12/2017	31/12/2016
Deferred tax assets		
Deferred tax liabilities	(246,017)	(309,465)
	(246,017)	(309,465)

NOTE 25 - SUBSIDIARIES

OVERVIEW OF SUBSIDIARIES	COUNTRY OF INCORPORATION	PROPORTION OF OWNERSHIP INTEREST	PROPORTION OF VOTING POWER HELD	REPORTING PERIOD	PRINCIPAL ACTIVITY
ORES scrl	Belgium	99.72%	99.72%	December	Energy network operator

ORES's shareholding is made out of the following "associations of municipalities":

	% PARTICIPATION 2017	NUMBER OF SHARES	% PARTICIPATION 2016	NUMBER OF SHARES
ORES Assets	99.72%	2453	99.68%	2452
RESA	0.00%	0	0.04%	1
IDEFIN	0.04%	1	0.04%	1
IPFH	0.04%	1	0.04%	1
FINEST	0.04%	1	0.04%	1
SOFILUX	0.04%	1	0.04%	1
FINIMO	0.04%	1	0.04%	1
IPFBW	0.04%	1	0.04%	1
IEG	0.04%	1	0.04%	1
	100.00%	2,460	100.00%	2,460

In 2013, ORES Assets sold seven shares of ORES scrl to the financing associations of municipalities ("intercommunales pures de financement") as well as one share to RESA (formerly Tecteo). This resulted in the recognition of non-controlling interests in the consolidated financial statements for an amount of € 31 thousand.

In 2017, following RESA's complete takeover of the system operator activities in the city center of Liège, the share held by RESA was sold to ORES Assets, thus reducing the non-controlling interests by € 4,000.

There is no investment in which we own more than 50% of the voting rights and that are not consolidated.

There is no investment in which we own less than 50% of the voting rights and that are consolidated.

There are no significant restrictions on the ability of the subsidiaries to transfer funds to the parent company in the form of cash dividends, or repayment of loans and advances.

NOTE 26 - INVESTMENTS IN ASSOCIATES

OVERVIEW OF ASSOCIATES	COUNTRY OF INCORPORATION	PROPORTION OF OWNERSHIP INTEREST	PROPORTION OF VOTING POWER HELD	FAIR VALUE OF THE INVESTMENT IN ASSOCIATES [1]	PRINCIPAL ACTIVITY
Atrias	Belgium	16.67%	16.67%	N/A	Metering IT support to ORES group, EANDIS economical group and other GRDs in Belgium (Sibelga, RESA,...)

[1] For which a disclosed quoted price is available

(in k€)

MOVEMENTS IN THE INVESTMENTS IN ASSOCIATES	31/12/2017	31/12/2016
Balance at 1st January	3	3
Acquisition of investment		
Disposal of investment Index'is		
Balance at 31 December	3	3
Goodwill included in carrying amount of investments in associates		

(in k€)

SUMMARISED FINANCIAL INFORMATION	ATRIAS 31/12/2017	ATRIAS 31/12/2016	TOTAL 31/12/2017	TOTAL 31/12/2016
Sales and other operating revenues	22,739	13,977	22,739	13,977
Profit (loss) before interest and taxation	217	185	217	185
Finance costs and other finance expenses	(158)	(130)	(158)	(130)
Profit (loss) before taxation	59	55	59	55
Taxation	(59)	(55)	(59)	(55)
Profit (loss) for the year	0	0	0	0
Profit (loss) attributable to owners of the company				
Non-current assets	34,015	24,364	34,015	24,364
Current assets	8,026	12,588	8,026	12,588
Total Assets	42,041	36,952	42,041	36,952
Non-current liabilities				
Current liabilities	42,022	36,933	42,022	36,933
Total Liabilities	42,022	36,933	42,022	36,933
Net assets	19	19	19	19
Group's share of net assets	3	3	3	3
Loans made by group companies to associates	7,175	5,388	7,175	5,388

The Group has a significant influence on Atrias as the two members of the ORES Group ar appointed in the Board of directors (as vice-president and director) and as fundamental decisions of the company are taken unanimously by the Board of directors.

NOTE 27 - FAIR VALUE OF FINANCIAL INSTRUMENTS

(in k€)

ANALYSIS OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE BY LEVEL OF THE FAIR VALUE HIERARCHY	31/12/2017 LEVEL 1	LEVEL 2	LEVEL 3	TOTAL FAIR VALUES
Financial assets				
Collar - CAP		1,518		1,518
Unlisted equity instruments		841		841
Trade receivables		184,138		184,138
Other receivables		53,298		53,298
Listed equity instruments – Sicav's and options		7,354		7,354
TOTAL FINANCIAL ASSETS	0	247,149	0	247,149
Financial liabilities				
Trade payables		159,297		159,297
Other payables		54,283		54,283
Interest rate swaps		9,986		9,986
TOTAL FINANCIAL LIABILITIES	0	223,566	0	223,566

(in k€)

ANALYSIS OF FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE BY LEVEL OF THE FAIR VALUE HIERARCHY	31/12/2016 LEVEL 1	LEVEL 2	LEVEL 3	TOTAL FAIR VALUES
Financial assets				
Collar - CAP		1,138		1,138
Unlisted equity instruments		841		841
Trade receivables		191,839		191,839
Other receivables		49,031		49,031
Listed equity instruments – Sicav's and options		8,113		8,113
TOTAL FINANCIAL ASSETS	0	250,962	0	249,824
Financial liabilities				
Trade payables		156,020		156,020
Other payables		70,618		70,618
Interest rate swaps		20,327		20,327
TOTAL FINANCIAL LIABILITIES	0	246,965	0	246,965

The following hierarchy is used by the entity for determining the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Description of the methods used for determining the fair value of derivatives:

- For derivative financial instruments: fair value is determined based on the estimated future cash flows and the interest rate curves.
- For the trade receivables and trade payables, as well as other receivables and payables: the fair value is presumed equal to the book value.

We refer to note 28 for an analysis of the evolution of the fair value of the IRS and of the collar.

NOTE 28 - DERIVATIVE INSTRUMENTS

(in k€)

OVERVIEW OF DERIVATIVE INSTRUMENTS	Postive fair values		Negative fair values	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Derivative instruments used in cash flow hedges				
Collar		1,138		
Interest rate swaps			9,986	20,327
	0	1,138	9,986	20,327
Derivative instruments not used in cash flow hedges				
Cap	1,518			
Of which : non-current	1,518	1,138	9,986	18,177
Of which : current			0	2,150

HEDGING POLICY WITHIN THE GROUP

In order to mitigate the interest rate risk, the Group uses derivative financial instruments such as interest rate swaps (IRS - variable rates swapped into fixed rates), caps or collars (combination of Cap and Floor). Within the Group, debt management and market data are carefully monitored. No derivatives are used for speculative purposes.

Regarding the collar previously recorded as financial assets in 2016, after careful analysis in the first half of 2017, it proved that this derivative instrument should not be recognized separately from the loans it covers because it is closely linked to it. As a result, it was derecognized and its residual value (€ 1.1 million) was taken directly in financial expenses in 2017.

Following the conclusion of several new variable rate borrowings and also the revision of several structured floating rate loans (see note 16), the Group contracted several interest rate caps in order to hedge against a possible rise in interest of variable rates in the next years. After analysis, the Group decided not to apply hedge accounting, and the change in their fair value is therefore recorded in profit and loss for the period.

As for the swaps, the change in their fair value is positive again this year (+ € 10.3 million) following the combination of several factors:

- Several contracts expired in 2017 as they were linked to maturing loans. These swaps had a negative value of € 2.2 million;
- The revision of several swap contracts representing a notional amount of € 60 million. This revision reduced the negative fair value of these contracts;
- The swaps remaining in the portfolio at the end of 2017 have a lower negative fair value than in 2016 because their maturity is approaching and a year of additional interest expense has been taken into profit this year (€ 8.9 million).

NOTE 29 – RELATED PARTIES

Transactions mentioned here below are those performed with all related parties (exception made of the consolidated related parties) including:

1) Majority shareholders and all companies directly or indirectly owned by them;
2) Shareholders with a significant influence;
3) Associates or joints ventures;
4) Group's key personnel;
5) Other significant related parties.

(in k€)

31/12/2017 NAME OF RELATED PARTY TYPE OF RELATIONSHIP	AMOUNTS RECEIVABLE		AMOUNTS PAYABLE				STATEMENT OF COMPREHENSIVE INCOME		
	AFTER ONE YEAR	WITHIN ONE YEAR	AFTER ONE YEAR	WITHIN ONE YEAR	TURNOVER	OTHER OPERATING INCOME	COST OF SALES	OTHER OPERATING EXPENSES	FINANCIAL INCOME
Atrias - Shareholder funding	7,175								30
Atrias customer - Accounting services		14				136			
Atrias supplier - IT services - Projects				635				(3,495)	
N-Allo - Call center				539				(5,473)	
IPFH - Lane fees							(13,629)		
	7,175	14	0	1,174	0	136	(13,629)	(8,968)	30

(in k€)

31/12/2016

NAME OF RELATED PARTY TYPE OF RELATIONSHIP

	AMOUNTS RECEIVABLE		AMOUNTS PAYABLE				STATEMENT OF COMPREHENSIVE INCOME		
	AFTER ONE YEAR	WITHIN ONE YEAR	AFTER ONE YEAR	WITHIN ONE YEAR	TURNOVER	OTHER OPERATING INCOME	COST OF SALES	OTHER OPERATING EXPENSES	FINANCIAL INCOME
Electrabel sa - Supplier - IT services				8,303				(7,768)	
Electrabel sa - Supplier - Leases (ORES lessee)								(5,653)	
Electrabel sa - Supplier - Insurrance services								(4,283)	
Electrabel sa - Supplier - Electricity purchase				6,527			(8,137)	(1,956)	
Electrabel sa - Customer - Transit Fees		53,872			555,264				
Electrabel sa - Customer - Leases (ORES lessor)		477				419			
Cofely - fabricom sa - Subcontractor services				1,833				(13,342)	
Atrias - Shareholder funding	5,388								
Atrias - Customer - Accounting services		13				130			
Atrias - Supplier - IT services - Projects								(3,466)	
Laborelec - Consultancy service				1				(2,093)	
Contassur - RH services				67				(257)	
Engie/GDF Suez - Insurrance services				286				(1,071)	
N-Allo - Call center				539				(5,473)	
IPFH - Lane fees							(13,664)		
	5,388	54,362	0	17,556	555,264	549	(21,801)	(45,362)	0

Following Electrabel / Engie's exit from the share capital of ORES Assets, as at 31 December 2016, the Electrabel Group and Engie are no more related parties for the year 2017.

In terms of bank loans, the Walloon municipalities and the private partner guaranteed some borrowings totaling € 586.5 million, i.e. 25.94% of total bank debt at the end of 2017 (compared with € 642.6 million, i.e. 31.89% of the total bank debt at the end of 2016). The private partner will release its guarantees (following its exit from the capital of ORES Assets on 31 December 2016) following an agenda that remains to be defined.

(in k€)

EMPLOYEE BENEFITS TO KEY MANAGEMENT PERSONNEL	31/12/2017	31/12/2016
Short term employee benefits	1,791	1,695
Post employment benefits		
Present value defined benefit obligation	5,099	5,518
Net period pension cost	192	11
Termination benefits	330	1,133
Other long-term benefits		
Present value defined benefit obligation	389	285
Net period pension cost	12	9
	7,813	8,651

The management staff is composed of the members of the Board of directors of ORES scrl and the members of the Executive committee of ORES scrl.

NOTE 30 - EVENTS AFTER THE REPORTING PERIOD

(in k€)

NATURE	Estimated financial impact	
	STATEMENT OF FINANCIAL POSITION	STATEMENT OF COMPREHENSIVE INCOME
Proposed dividend to the Shareholders' meeting in 2018	81,187	0
	81,187	0

As mentioned in the 2016 annual report, a cooperation agreement between the three Regions has been reached on 13 February 2014. The agreement provides that the legislation related to the organization and operation of bi-regional associations of municipalities and administrative supervision, applicable to each municipality and region, is the one of the Region where the public shareholders own the biggest portion of the shareholding.

As a consequence, operators, network operators and municipalities reflected together and everybody considered as relevant a territorial rationalization on a regional basis of the associations of municipalities for energy distribution (previously bi- regional).

Therefore, after the transfer of the municipality of Frasnes-lez-Anvaing in 2016, the ORES Group finalised the arrival of four new Walloon municipalities on 1st January 2018, namely the municipalities of Chastres, Perwez, Incourt and Villers-la-Ville, formerly shareholders in the PBE distribution service operator.

NOTE 31 - FINANCIAL RISKS MANAGEMENT

1. CREDIT RISK

Credit risk management overview

The credit risk is the risk that the debtor does not fulfil its initial obligation to reimburse a "credit". Its components are the counterparty risk, the liquidity risk, the risk linked to the activity or to the structure of the counterparty, the sector risk, the financial risk and, finally, the political risk.

The Group deals with credit risk in diverse ways. Concerning the treasury and investments, the Group's excess cash is either deposited on financial institutions accounts or invested in different diversified commercial papers issued by banks or companies fulfilling strict selection criteria.

Concerning the trade receivables, a distinction should be made between :

- Receivables related to transit fees for which the Group obtains bank guarantees and conducts balance sheet analyses before determining the payment terms and conditions;
- Receivables related to public service obligations (energy supply) and works for which the Group hired factoring companies.

		(in k€)
MAXIMUM EXPOSURE TO CREDIT RISK :	31/12/2017	31/12/2016
Derivatives financial assets	1,518	1,138
Trade and other receivables	237,436	240,870
Financial assets available for sale	841	841
Cash and cash equivalent	192,912	104,340
	432,707	347,189

2. LIQUIDITY RISK

The liquidity risk is the risk that an entity faces difficulties to fulfil its obligations related to financial instruments.

The liquidity risk is related to the Group's necessity to obtain the external funding it needs to realise its investments program and to re-finance its existing financial debts amongst other things.

The financial policy aims to cover the financial needs of the year and to maintain a cash surplus position. The liquidity risk is limited by this last point and by the diversification of financing sources.

ORES has short-term financing capacity through its treasury bills program and the lines of credit mentioned above; we can consider that the liquidity risk is almost zero. Cash management helps to limit market risk, wealth structure and liquidity risk. The Board of directors has set up a cautious investment policy, based on diversification and the use of products with limited credit and interest rate risk. ORES is attentive to the problem of negative rates in the management of its cash flow. Finally, it should be noted that the tariff methodology provides that all costs related to the financing policy are covered by the regulatory budget (methodology 2017 and 2018).

Depending on market conditions, the Group has set up a financing strategy that covers either the current year or several financial years. In 2017, as indicated in note 16, the Group obtained from the European Investment Bank the setting up of a € 550 million credit facility on which it made a first draw of € 150 million at the end of the year. It also borrowed from banks and issued short-term treasury bills to cover all of its financing needs.

Regarding the upholding of cash surplus, the Group's cash position amounts to € 192.9 million at 31 December 2017 (2016: € 104.3 million) - see note 14.

The breakdown of borrowings contracted by the Group is detailed in note 16.

(in k€)

31/12/2017

MATURITY ANALYSIS (BASED ON UNDISCOUNTED FUTURE FINANCIAL FLOWS)	Carrying amount	< 1 year	>1 and <3 years	>3 and <5 years	>5 and <15 years	>15 years	No maturity date	Total
Derivative financial assets	1,518				1,513			1,513
Trade and other receivables	237,436	237,436						237,436
Financial assets available for sale	841						841	841
Cash and cash equivalent	192,912	192,912						192,912
TOTAL ASSET	432,707	430,348	0	0	1,513	0	841	432,702
Derivative financial liabilities	9,986	5,218	5,660	(257)	(1,395)			9,226
Borrowings	2,260,955	276,576	485,914	611,595	844,199	439,379		2,657,663
Trade and other payables	213,580	213,580						213,580
TOTAL LIABILITY	2,484,521	495,374	491,574	611,338	842,804	439,379	0	2,880,469
LIQUIDITY RISK TOTAL	(2,051,814)	(65,026)	(491,574)	(611,338)	(841,291)	(439,379)	841	(2,447,767)

(in k€)

31/12/2016

MATURITY ANALYSIS (BASED ON UNDISCOUNTED FUTURE FINANCIAL FLOWS)	Carrying amount	< 1 year	>1 and <3 years	>3 and <5 years	>5 and <15 years	>15 years	No maturity date	Total
Derivative financial assets	1,138					1,138		1,138
Trade and other receivables	240,870	240,870						240,870
Financial assets available for sale	841						841	841
Cash and cash equivalent	104,340	104,340						104,340
TOTAL ASSETS	347,189	345,210	0	0	0	1,138	841	347,189
Derivative financial liabilities	20,327	7,986	10,085	1,707	488			20,266
Borrowings	2,013,154	327,937	315,180	744,276	629,693	396,774		2,413,860
Trade and other payables	226,638	226,638						226,638
TOTAL LIABILITIES	2,260,119	562,561	325,265	745,983	630,181	396,774	0	2,660,764
LIQUIDITY RISK TOTAL	(1,912,930)	(217,351)	(325,265)	(745,983)	(630,181)	(395,636)	841	(2,313,575)

3. MARKET RISK

The market risk is the risk that the fair value or the future cash flows from a financial investment fluctuates due to market prices variations. The market risk comprises three types of risks:

- Exchange rate (exchange rate risk) - not applicable to the Group;
- Market interest rate (interest rate risk);
- Market price (i.e. shares prices, commodities prices) - not applicable to the Group.

The Group is exposed through its activities mainly to the financial risks associated with changes in interest rates. However, the price risk associated with the only SICAV still in portfolio, recorded as other current assets, is not significant.

INTEREST RATE RISK

To reduce the interest rate risks, the Group has established a policy that aims to balance the interest rates of the debt between fixed and floating rates. To manage the volatility of the interest rate, the Group uses hedging instruments (IRS, cap, collar or structured debt) depending the market situation. The value of those hedging instruments may vary depending on the evolution of the interest rates. The portfolio is managed centrally at Group level and is reviewed periodically.

Sensitivity analysis

METHODS AND ASSUMPTIONS USED IN THE PREPARATION OF THE SENSITIVITY ANALYSIS

The interest rate to use before any change in margin is calculated as follows:

We use the latest rate that prevails on the last working day of the period (31/12) and we calculate the average for the Euribor rates (Euribor 1, 3, 6, 12 months) and for the IRS (for a period of 1 to 30 years). At 31 December 2017, the average Euribor rate is -0.29% (-0.25% in 2016) and the average rate on IRS is 0.67% (0.47% in 2016).

Based on these averages, we recalculate the financial flows as at 01/01/N+1.

Then we simulate the impact of an increase of 50 basis points of the rate calculated above. We do the same by simulating the impact of a decrease of 50 basis points in the yield curve calculated above.

The impact in each column is measured at 2 levels (in k€):

1. Impact on result before tax (for all instruments): this column represents the difference between the simulated financial charges compared to the financial charges calculated based on the average rate at the end of the reporting period (positive = gain; negative = loss).

2. On equity: this column represents the difference between the book value calculated at the end of the reporting period based on the average rate compared to the simulated book value (outstanding capital or market value) – (positive = gain; negative = loss).

(in k€)

31/12/2017	+ 50 BASIS POINTS IMPACT ON PROFIT BEFORE TAX	+ 50 BASIS POINTS IMPACT ON EQUITY	- 50 BASIS POINTS IMPACT ON PROFIT BEFORE TAX	- 50 BASIS POINTS IMPACT ON EQUITY
Debt	(4,679)		2,615	
IRS	1,250	(7,129)	(829)	(21,144)
	(3,429)	(7,129)	1,786	(21,144)

31/12/2016	+ 50 BASIS POINTS IMPACT ON PROFIT BEFORE TAX	+ 50 BASIS POINTS IMPACT ON EQUITY	- 50 BASIS POINTS IMPACT ON PROFIT BEFORE TAX	- 50 BASIS POINTS IMPACT ON EQUITY
Debt	(4,927)		2,519	
IRS	1,887	2,640	(1,351)	(2,947)
	(3,040)	2,640	1,168	(2,947)

An increase of 50 basis points would lower our result before taxes by € 3.4 million as our equity by € 7.1 million. While a decrease of 50 basis points would raise our result before taxes by € 1.8 million but would have a negative impact of € 21.1 million on our equity, mainly due to the new IRS contracted at the beginning of 2017.

4. CAPITAL RISK MANAGEMENT

The Group share capital consists of the capital of ORES Assets scrl, the operator of electricity and gas distribution networks in Wallonia. In 2012, it was represented by the eight Walloon associations of municipalities: IDEG scrl, I.E.H. scrl, I.G.H. scrl, Interest scrl, Interlux scrl, Intermosane scrl, Sedilec scrl and Simogel scrl that merged on 31 December 2013 to establish ORES Assets scrl. This merger was effective with retroactive effect as from 1st January 2013 from an accounting point of view.

The capital of ORES Assets is composed of a fixed part (fully subscribed, paid and fixed at € 148,000) and a variable part (also fully subscribed and paid). The fixed part of the capital is represented by shares A while the variable part is represented by shares A and shares R, which are both capital shares. Shares A include voting right and right to dividends whereas shares R only grant their owner with a (priority) right to dividends, capped and recoverable, without voting right.

The decision to increase or reduce the fixed part of the capital must be validated by the Shareholders' meeting. This part of the capital varies depending on the admission or exclusion of shareholders and other increases or reductions of variable capital. The variable part may be increased or reduced by a resolution of the Board of directors and does not require a modification of the bylaws, but the reimbursement of shares A and R requires the approval of the shareholders' meeting.

In case of a capital increase, the new shares will be offered for subscription to the shareholders in proportion to their participation in the share capital.

An association of municipalities ("intercommunale") must have at least two municipalities as shareholders, there are 197 in ORES Assets. Any other private or public legal entity may enter in the shareholding of an association of municipalities.

ORES Assets was a so-called "mixed" association of municipalities until 31 December 2016 because its capital was held by municipalities (that are all located in Walloon region), directly or indirectly via a financing association of municipalities (IDEFIN, IPFH, IEG, IPFBW, FINIMO, FINEST et SOFILUX), and by a private shareholder (Electrabel/Engie) for the left part.

Following the withdrawal of the latter as at 31 December 2016, the A and R parts are 100% owned by municipalities and seven financing associations of municipalities.

The regulatory environment in which the Group operates is described in note III.A.15 in the accounting policies. The rate of return of the fair margin determined by regulation depends particularly on the ratio equity of ORES Assets over Regulated Asset Base (called also Regulated Asset Base - RAB).

As such, it is mentioned in the articles of association of ORES Assets that a ratio of 33% of equity to the RAB must be maintained and a ratio of 30% of equity to the balance sheet total (calculated based on the statutory accounts established according to Belgian accounting principles).

III. Accounting policies ORES Assets scrl

A. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Group in the preparation of its consolidated financial statements are described below.

A.1. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements include the Group consolidated financial statements for the year ended 31 December 2017. The Group consolidated financial statements have been prepared on a voluntary basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments that are measured at their fair values.

Functional and presentation currency

The consolidated financial statements are expressed in thousands Euros (€). Euro is the functional currency (currency of the primary economic environment in which the entity operates) used within the Group.

A.2. NEW, REVISED AND AMENDED STANDARDS AND INTERPRETATIONS

The Group has applied the standards and interpretations applicable to the accounting period ended 31 December 2017.

New standards and interpretations applicable for the annual period beginning January 1st, 2017

- Amendments to IAS 7 Cash Flows Statement - Disclosure Initiative (applicable for annual periods beginning on or after 1st January 2017);
- Amendments to IAS 12 - Income Taxes - Recognition of deferred tax assets for unrealized losses (applicable for annual periods beginning on or after 1st January 2017);
- Annual improvements to IFRS cycle 2014-2016 - Amendments to IFRS 12 (applicable for annual periods beginning on or after 1st January 2017).

Standards and interpretations published, but not yet applicable for the annual period beginning on 1st January 2017

- IFRS 9 Financial instruments and subsequent amendments (applicable for annual periods beginning on or after 1st January 2018);
- IFRS 15 Revenue from contracts with customers (applicable for annual periods beginning on or after 1st January 2018);
- Clarification to IFRS 15 - Revenue from customer contracts (applicable for annual periods beginning on or after 1st January 2018);
- IFRS 16 Leases (applicable for annual periods beginning or on after 1st January 2019);
- Improvements to IFRS (2014-2016) - Amendments to IFRS 1 and IAS 28 (applicable for annual periods beginning on or after 1st January 2018);
- IFRIC 23 - Accounting for uncertainties on income taxes (applicable for annual periods beginning on or after 1st January 2019 but not yet endorsed in EU);
- Improvements to IFRS (2015-2017) - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (applicable for annual periods beginning on or after 1st January 2019 but not yet endorsed in EU);
- Amendment to IAS 19 on the modification, reduction or liquidation of a system (applicable for annual periods beginning on or after 1st January 2019, but not yet endorsed in EU).

The Group has not early adopted any new standard or interpretation published but not yet applicable.

Concerning the application of IFRS 15 - Revenue from contracts with customers, effective as of 1st January 2018, the Group carried out an assessment of the potential impact of the adoption of this standard on its consolidated financial statements. After analysis, we do not expect any significant impact on the 2018 consolidated financial statements.

Concerning the standard IFRS 9 - Financial Instruments, which is effective as of 1st January 2018, the Group has also assessed the potential impact of the adoption of this standard on its consolidated financial statements. After analysis, the Group forecasts an increase in its write-downs in 2018 following the application of the Expected Credit Losses (ECL) method, as opposed to the current method recommended by IAS 39, namely the credit losses incurred. This will mainly apply, in our case, to financial assets booked at amortised cost (trade and other amount receivables). The impact has not yet been calculated at this stage, but it should be limited as our valuation rules related to write-downs are quite strict.

Finally, regarding the application of IFRS 16 - Lease Agreement, effective as of 1st January 2019, the analysis of its impact on the 2019 consolidated financial statements is still in progress. Based on note 22 of our 2017 financial statements, and more specifically on our commitments related to non-cancellable operating leases for a period of more than one year, an initial estimate leads us to book an additional amount of fixed assets for an amount close to € 13 million, generating an increase in depreciation charges however offset by a decrease in other operating expenses.

Besides the standard IFRS 16, the Group does not expect any significant impact during the application of these new standards or interpretations.

A.3. BASIS OF CONSOLIDATION

As explained in the preliminary note, the eight DSO's have merged on 31 December 2013 with retroactive effect on 1st January 2013 to create ORES Assets (hereafter referred to as ORES Assets or DSO), an electricity and gas Distribution System Operator ("DSO") in Wallonia that holds at 31 December 2017 the exclusive control of its sole subsidiary ORES scrl. For the preparation of the consolidated financial statements, ORES Assets consolidated its subsidiary using the full consolidation method.

The Group consolidated financial statements incorporate the financial statements of the entities controlled by ORES Assets (its subsidiaries). According to IFRS 10, control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with investee; and
- has the ability to use its power over the investee to affect the amount of the group's returns.

The assessment of control is done on a case-by-case basis in accordance with IFRS 10, IFRS 11, IFRS 12 and IAS 28.

The subsidiaries are the entities controlled by the Group and are consolidated using the full consolidation method when existence of control has been established until the Group ceases to have control over the entity.

An associate is an entity over which the Group has significant influence without controlling it. Associates are consolidated using the equity method when existence of significant influence has been established until the Group ceases to have significant influence over the entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. An investment in a joint venture is accounted for using the equity method from the date on which the existence of joint control has been established until the Group ceases to have joint control over the entity.

All intra-group transactions, balances, income and expenses are eliminated in full during the consolidation process for the preparation of the consolidated financial statements.

A.4. BUSINESS COMBINATIONS AND GOODWILL

When the Group obtains control over an integrated set of assets and activities that meet the definition of a business in accordance with IFRS 3 – Business combinations, acquiree's assets, liabilities and contingent liabilities are recognised at their fair value at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred and the amount of any non-controlling interests over the share acquired in the fair value of the acquiree's net identifiable assets. The goodwill is allocated to the cash-generating units and is not amortised, but is reviewed for impairment annually.

A.5. INTANGIBLE ASSETS

Intangible assets are recognised if and only if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of that asset can be measured reliably.

Intangible assets are initially measured at cost. The cost of an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria in accordance with IAS 38. The cost of an internally-generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Intangible assets acquired in a business combination in accordance with IFRS 3 are measured at their fair values at the date of acquisition.

After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful life. Amortisation begins when the asset is capable of operating in the manner intended by management.

	USEFUL LIFE
IT software	5 YEARS
Development costs	5 YEARS

IT software

Software licenses acquired by the Group are recognised at their acquisition cost less accumulated amortisation and any accumulated impairment losses. Internally-generated IT software's are recognised at their cost and development costs if they meet the criteria required by IAS 38.

Research and Development costs

Research costs, should they occur, would be expensed in the period in which they are incurred. Development costs are capitalised if the criteria for recognition as an intangible assets defined by IAS 38 are met. The capitalised development costs are subsequently amortised linearly over their useful life, taking into account any accumulated impairment losses.

A.6. PROPERTY, PLANT AND EQUIPMENT

As a general rule, the Group is the legal owner of the property, plant and equipment consisting of the network installation, buildings, lands, vehicles, furniture and tools.

Property, plant and equipment are recognised as assets at acquisition or production cost if and only if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The cost of an item of property, plant and equipment comprises its purchase or production price and any costs directly attributable to the location and condition necessary for its operation, including the initial estimation of the dismantling and removing the asset and restoring the site on which it is located, if applicable.

Transfers of assets from customers related to the connections to the network are not deducted from the value of the items of property, plant and equipment to which they are related but are recognised as turnover in accordance with IFRIC 18 – Transfers of assets from customers.

After their initial recognition at historical cost, property, plant and equipment owned by the Group are depreciated using the straight-line method and are carried on the balance sheet at cost less accumulated depreciation and impairment. Depreciation begins when the asset is capable of operating in the manner intended by management. The components of an item of property, plant and equipment with a significant cost and different useful lives are recognised separately. Lands are not depreciated.

At the end of each reporting period, the Group proceeds to the disposal of items of property, plant and equipment that are no longer in service. The carrying amount of the property, plant and equipment that are abandoned is then derecognised.

Since 2003, the intermunicipal entities active in the electricity and natural gas markets have refocussed their activities, as these markets have been liberalised, essentially on the function of electricity and gas distribution system operator, a monopolistic activity for which there is a regulatory framework composed in particular of tariff methodologies.

The electricity and gas distribution system operators (which will become ORES Assets scrl in 2013) having a technical inventory to justify the value of the tangible fixed assets, were able to determine the initial value of the capital invested at 31 December 2002 on the basis of the economic value of this inventory. The initial values were formally approved by the competent regulator and confirmed in 2007 based on 31 December 2005 values for electricity and 31 December 2006 values for natural gas. The capital gain recognized is the difference between the value of the IRAB as approved by the regulator and the book value of fixed assets on the same dates.

The value of the regulated asset is critical in determining the fair margin attributed to the DSO for a given reporting period, and therefore the tariffs applicable in a given regulatory period. A complete description of the regulatory mechanism is provided in section A.15 below.

Depreciation rates used by the Group have been defined in the price methodology approved by the CWaPE. These rates reflect a good estimate of the useful life of property, plant and equipment for the sector in which the Group operates. The residual value is always presumed to be zero at the end of the useful life of an asset. The following table details the depreciation rates:

PROPERTY, PLANT AND EQUIPMENT	DEPRECIATION RATE
Lands	0%
Industrial buildings	3% (33 YEARS)
Administrative buildings	2% (50 YEARS)
Gas lines	2% (50 YEARS)
Cables	2% (50 YEARS)
Lines	2% (50 YEARS)
Signaling of optical fibers network	4% (25 YEARS)
Stations and cabins (gas and electricity)	3% (33 YEARS)
Connections – Transformations	3% (33 YEARS)
Connections – Wires and cables	2% (50 YEARS)
Measurement equipment	3% (33 YEARS)
Electronic meters, budget meters	10% (10 YEARS)
Smart low voltage electric meters	6,67% (15 YEARS)
Smart low pressure gas meters	6,67% (15 YEARS)
Signaling network (Smart equipment)	10% (10 YEARS)
Remote control, equipment lab and dispatching	10% (10 YEARS)
Data transmission and optical fibers	10% (10 YEARS)
Furniture and equipment	10% (10 YEARS)
Vehicles	20% (5 YEARS)
Rolling stock	10% (10 YEARS)
Administrative equipment (IT hardware)	33% (3 YEARS)

A.7. IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting period, the Group assesses whether there is any indication that assets have suffered an impairment loss. If any such indication exists, the Group estimates the recoverable amount of the asset. An asset is impaired when its carrying value is higher than its recoverable amount. The recoverable amount of an asset or a cash-generating unit (CGU) is the higher of an asset's fair value less costs of disposal and its value in use. If it is not possible to estimate the recoverable amount for the individual asset, the Group estimates the recoverable amount for the CGU to which it belongs.

Cash-generating units are defined as the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. The Group is structured in seven operating segments and has therefore defined its CGUs as the seven operating segments with a distinction between electricity and gas activities within each of them.

Goodwill is reviewed annually for impairment. Goodwill is allocated to the CGUs on a consistent basis with the key used in allocating the expenses incurred by ORES scrl between the segments for a given energy (based on the connection points or EAN).

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior period for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of that asset. The increased carrying amount of that asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) if no impairment loss had been recognised for that asset in prior years. Impairment losses on goodwill are never reversed.

A.8. LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The agreements that do not take the legal form of a lease are analysed with reference to IFRIC 4 – Determining whether an arrangement contains a lease to determine whether or not they contain a lease contract to be accounted for in accordance with IAS 17 – Leases.

Finance leases

Assets held under finance leases by the Group are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability is included in the consolidated statement of financial position as a finance lease obligation with the same value as the assets. Assets held under finance leases are depreciated over their estimated useful amortized life on the same basis as property, plant and equipment or, if shorter, over the lease term.

Lease payments are apportioned between finance expenses and reduction of the lease obligation.

Assets owned by the Group and leased to third parties under finance leases are derecognised and a receivable is recognised as an asset in the balance sheet for an amount equal to the net investment in the lease contract. The recognition of financial income is made based on pattern reflecting a constant periodic rate of return on the lessor’s net investment in the finance lease.

Operating leases

Assets held by the Group under operating leases are not recognised in the balance sheet. Operating lease payments are recognised as an expense in the period in which they are incurred on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Assets owned by the Group and leased to third parties under operating leases are recognised in the balance sheet as property, plant and equipment or intangible assets. Rental income from operating lease is recognised as income on a straight-line basis over the lease term. The depreciation method used for the leased assets is consistent with the method used for similar assets.

A.9. INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes the purchase, conversion and other costs incurred to bring the inventories to their present location and condition. The net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs of inventories are determined by using the weighted average cost.

A.10. FINANCIAL INSTRUMENTS

Financial instruments held by the Group are recognised and measured with reference to IAS 32 and IAS 39. The Group does not enter into or trade financial instruments for speculative purposes. The Group is engaged in financial instruments only for economic hedging purposes.

A.10.1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and in banks, as well as short-term deposits with a maturity of three months or less.

A.10.2. LOANS AND RECEIVABLES

Loans and receivables are financial assets with fixed or determinable payments which are not quoted in an active market. They are initially recognised at their fair value, which in most cases correspond to their nominal value, plus transaction costs. After their initial recognition, these financial assets are measured at amortised cost using the effective interest method, less any impairment.

An impairment loss is recognised if there is any objective indication that the Group might not recover all the amounts due.

Since 2015, the impairment computation method of the receivables related to energy to final clients and to works is based on a bearing system that take into accounts the covering rate foreseen by the adjudicator that has been in charge to record them gradually as a charge.

Note that no impairment is made on receivables "network damage" of less than two years and on open receivables to municipalities.

Gains or losses are recognised in the income statement when the financial asset recognised at amortised cost is derecognised or impaired.

A.10.3. EFFECTIVE INTEREST RATE METHOD

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest incomes or expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash inflows or outflows through the expected life of the financial instrument or, where appropriate, a shorter period so as to determine the net carrying amount for the financial asset or the financial liability.

A.10.4. BORROWINGS

The Group is financed through conventional loans and treasury bills or bonds. Borrowings contracted by the Group are financial liabilities that are initially measured at their fair value less transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method less repayments of principal. Interest expense is recognised using the effective interest rate. Costs related to the issuance of bonds or treasury bills are deducted from the debt at the date of issue and are taken into account in calculating the effective interest rate in order to replenish the amount of debt.

A.10.5. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into a variety of derivative financial instruments like interest rate swap (from 5 to 10 years), collars or interest rate caps to manage its exposure to interest rates arising from operating, financing and investing activities.

The accounting treatment of the derivative financial instruments depends on their designation or not as a hedging instrument and on the nature of the hedge relationship. Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured at fair value at the end of each reporting period. The resulting gain or loss is recognised in the income statement immediately, unless the derivative is designated as an hedging instrument and the hedge is effective.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the financial instrument is more than 12 months. In case of a maturity below 12 months, they are presented as a current assets or a current liability.

A.10.6. HEDGE ACCOUNTING

The Group designates certain hedging instruments as cash flow hedge in order to hedge the group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or a liability, a firm commitment or a highly probable forecast transaction that could affect the income statement. Hedge accounting related to fair value hedge is not applied by the Group in this case.

The Group applies hedge accounting to the interest rate swaps, while the collars and interest rate caps are not designated as hedging instruments in a hedge relationship.

In accordance with IAS 39, the hedge relationship must be formally designated and documented. Documentation must include the link between the hedge relationship and the risk management, the relationship between the risk and the hedging instrument, the hedged position, the nature of the hedged risk and the technique used to assess whether the relationship is effective or not.

The hedge relationship must be highly effective in achieving offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk and a reliable estimate of the effectiveness can be made. To be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk, the actual results of the hedge must be within a range of 80% to 125%.

The effective portion of changes in the fair value of the hedging instrument in a cash flow hedge is recognised in other comprehensive income (equity). The gain or loss relating to the ineffective portion is recognised immediately in the income statement (including the ineffectiveness within the range 80-125%).

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

A.10.7. AVAILABLE-FOR-SALE FINANCIAL ASSETS (AFS)

AFS financial assets include investments in entities that are not consolidated nor recognised using the equity method. AFS financial assets are measured at fair value. Fair value changes on AFS financial assets are recognised directly in other comprehensive income. Once it has been determined that an AFS financial asset is impaired, the cumulative loss that had been recognised directly in equity is recycled in the income statement. AFS financial assets whose fair value cannot be reliably determinable are measured at cost. Measurement at cost is used by the Group for all its AFS financial assets.

A.11. EMPLOYEE BENEFITS

The Group provides to its employees various short and long-term benefits and post-employment benefits, in accordance with the applicable laws in Belgium.

A.11.1. SHORT-TERM EMPLOYEE BENEFITS

When an employee has rendered services to the Group during the reporting period, the Group recognises the non-discounted amount of short-term employee benefits in return of services rendered: as a liability, after deducting the amount already paid (if applicable), and as expenses (unless another IFRS requires or authorises the capitalisation in the carrying amount of an asset).

A.11.2. POST-EMPLOYMENT BENEFITS

Post-employment benefits are classified in 2 categories: defined benefit or defined contribution plans.

Defined contribution plans are measured and recognised according to the "intrinsic value" approach. The method consists in calculating, at the end of the reporting period and for each plan participant, the minimum guaranteed reserve (taking into account an interest rate of 3.75% for employee contributions and 3.25% for employer contributions) and the mathematical reserve. The guaranteed reserve is equal to the higher of the minimum guaranteed reserve and the mathematical reserve. If the guaranteed reserve is higher than the mathematical reserve, there is a deficit. Any deficit must be covered by the employer and an appropriate provision must be recognised in the consolidated financial statements.

Contributions paid with respect to defined contribution plans are recognised as expenses when employees have rendered the services giving rights to those contributions.

Concerning the defined benefit plans, the amount recognised as a net liability (asset) corresponds to the difference between the present value of future obligations and the fair value of the plan assets.

If the calculation of the net obligation gives rise to a surplus for the Group, the asset recognised for this surplus is limited to the present value of any future plan refunds or any reduction in future contributions to the plan.

Cost of defined benefits includes cost of services and net interests on the net liability (asset) recognised in net result (respectively in employee costs for the cost of services, and as financial expenses (income) for the net interests), as well as the revaluations of the net liability (asset) recognised in other comprehensive income.

The present value of the obligation and the costs of services are determined by using the projected unit credit method and actuarial valuations are performed at the end of each reporting period.

The actuarial calculation method implies the use and formulation of actuarial assumptions by the Group, involving the discount rate, evolution of wages, medical costs inflation, employee turnover and mortality tables. These actuarial assumptions correspond to the best estimations of the variables that will determine the final cost of post-employment benefits. The discount rate reflects the rate of return on high quality corporate bonds with a term equal to the estimated duration of the post-employment benefits obligations.

A.11.3. OTHER LONG-TERM EMPLOYEE BENEFITS

The accounting treatment of the other long-term employee benefits is similar to the accounting treatment for post-employment benefits, except for the fact that revaluations of the net liability (asset) are accounted for in the income statement instead of being recognised in other comprehensive income.

The actuarial calculations of post-employment obligations and other long-term employee benefits are performed by independent actuaries.

A.12. PROVISIONS

A provision is recognised when the Group has a present obligation (legal or constructive), at the end of the reporting period, as a result of a past event with probable outcome that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation. Provisions with a term equal to or above 12 months are discounted if the effect of discounting is material. Provisions recognised by the Group mainly relate to litigation and risks related to the clean-up of polluted soils.

Environmental liabilities

The Group regularly analyses all its environmental risks and the corresponding provisions. Main environmental risks are related to sites that present a significant level of pollution. The amount of the provisions recognised to cover those risks are based on the best estimate of the resources that will be necessary to settle the obligation, in terms of study fees and clean-up of the concerned soils, on the basis of valuation analyses prepared by independent experts. The Group measures those provisions to the best of its knowledge of applicable laws and regulations depending on the extent of the pollution and the studies that need to be performed concerning the environmental impact.

A.13. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets that necessarily take a substantial period of time to get ready for their intended use) are added to the cost of those assets. All other borrowing costs are expensed in the period in which they are incurred.

A.14. FINANCIAL INCOME AND EXPENSES

Financial expenses comprise the interests on borrowings and financial debts calculated using the effective interest rate method, as well as the increase in provisions following the unwinding of discount due to the time evolution.

Financial income comprises the interests income on investments recognised using the effective interest rate method, as well as dividends recognised when the right of the Group to receive those payments has been established.

Changes in the fair value of derivative financial instruments held by the Group that are not designated in a hedge accounting relationship are presented as financial expenses or financial income.

A.15. REVENUE RECOGNITION

A.15.1 EVOLUTION OF THE REGULATORY ENVIRONMENT IN 2017

Legislative framework

The CWaPE has since 1st July 2014 gained full authority on the control of tariffs for the public distribution of natural gas and electricity, which was previously a competence of the federal regulator (CREG). The exercise of these competences implies for the Walloon regulator to approve or modify the tariff methodology, the distribution tariffs but also take decisions regarding the regulatory balances.

As a first step, for a transitional period aimed at ensuring the continuity of the federal regulatory framework, the decree tariff provisions governing the exercise of the tariff competence of the CWaPE were taken over from the (federal) law of 8 January 2012 and adopted through the decree of 11 April 2014[1]. In a second step began in 2015 the development of a tariff regulatory framework specific to the Walloon region. The tariff decree was adopted on 19 January 2017[2].

It is based on this new tariff framework specific to the Walloon Region that the CWaPE adopted, in 2017, its tariff methodology 2019-2023 (see below).

Transitory tariff period: 2015 to 2018

Acting based on the transitory tariff provisions of the decree of April 11, 2014, the CWaPE wished to adopt, for a transitory period initially covering the years 2015 and 2016, tariff methodologies very much in line with tariff methodologies which served as a basis for the approval of tariffs by the CREG (regulatory period 2009-2012 extended until 2014). In the absence of adoption of the tariff decree in 2016, the CWaPE has decided to include the 2017 tariff methodology in the continuity of the transitory tariff methodology established for the 2015-2016 regulatory period. For the fiscal year 2018, since the tariff decree was only adopted on 19 January 2017, the tariff methodology developed based on this decree (see below, a new multi-year tariff methodology) could not be decided early enough to allow the introduction of a tariff proposal that would be valid as of 2018. The CWaPE therefore decided on 1st December 2017 to extend the 2017 tariffs in 2018[3].

New multi-years tariff methodology

In accordance with the new provisions adopted in the tariff decree of 19 January 2017, the CWaPE adopted on 17 July 2017 a new tariff methodology applicable for the 2019-2023 regulatory period[4].

In accordance with the European directives of the third package and in the wake of the energy transition, the CWaPE wanted to change the tariff regulation by making it more incentive, mainly on two aspects.

Firstly, the CWaPE wants, more than in the current transitory methodology, to encourage network operators to control their costs in their traditional network management and investment activities. In order to do so, it decides to extend the manageable cost base, to introduce regulatory periods of 5 years and to implement a revenue ceiling system, a "Revenue cap" regime, coupled with an annual productivity improvement factor of the type "Factor X".

At the same time, through specific additional budgets (not subject to "Factor X"), it intends to encourage network operators to participate in or undertake research and development projects and to deploy innovative solutions. To this end, it provides the possibility, with a positive business plan, of having specific budgets for the deployment of communicating meters (or smart metering) and for the promotion of natural gas in Wallonia.

To this end, the CWaPE has held a consultation with the DSOs and a formal public consultation for the period from March 31, 2017 to May 19, 2017. ORES, the other Walloon DSOs and various market players participated in this dialogue / public consultation[5].

It should also be noted that an appeal against this new tariff methodology has been filed with the Liège Court of Appeal.

Determination of the elements of income and of the tariffs under the transitory tariff methodology applicable until the end of 2018.

According to the transitional regime (drawing on principles of the previous tariff methodologies applied by the CREG until the end of 2014), the total income of a DSO includes among others the following three elements:

- the reimbursement of all the management costs deemed reasonable to perform the duties of DSO during the regulatory period, including the management costs supporting the duties of the public services obligations (PSO);
- a fair profit margin for the capital invested in DSOs and amortization expense;
- the surcharges to include in the rates.

Similar to the CREG, the CWaPE distinguishes "manageable costs" and "non-manageable costs". All costs on which the DSO has direct control are considered as manageable costs; the costs on which the DSO does not exercise direct control are considered non-manageable costs. The following costs, among others, are considered "non-manageable": certain specific operating costs such as those of public service obligations, depreciation costs, costs incurred for the transport of electricity (i.e. costs invoiced by Elia to provide energy on their transmission system to connection points with distribution networks), the cost of compensation for network losses, financial charges, fair remuneration of invested capital and carry forward from previous accounting years. "Manageable" costs are subject to a cap (see below) and to an incentive mechanism. Balances on these costs cannot be recovered in future rates. The "non-manageable" costs are budgeted

[1] Decree of 12 April 2001 on the organization of the regional electricity market as amended by the decree of 11 April 2014.
[2] Decree on the tariff methodology applicable to the gas and electricity distribution system operators.
[3] Decisions CD17l01-CWaPE-0125 to 0130 of 1st December 2017 relating to the extension of periodic and non-periodic distribution rates and chargeback rates for the costs of using the transport network of the electricity from ORES Assets (sectors Brabant Wallon, Hainaut, Luxembourg, Mouscron, Namur and Verviers) applicable as of 31/12/2017 and fixing the tariff principles applicable to the year 2018.
[4] The CWaPE decision of 17 July 2017 on the tariff methodology applicable to the electricity and natural gas DSOs active in Wallonia for the 2019-2023 regulatory period, see http://www.cwape.be/?dir=7.7.2.
[5] All documents related to the tariff methodology adoption are published on the CWaPE website http://www.cwape.be/?lg=1&dir=7.7.1.

by the DSOs based on best-estimates. They are subject to a cost-plus mechanism. Balances on these costs can be recovered into future rates.

Regulated asset

To calculate the fair profit margin of the DSO, a value of the regulated asset - corresponding to the value of the regulated fixed assets of the DSO (the "RAB") (Regulated Asset Base) - must be defined.

Compared to the CREG methodology (till end 2014), three alterations were made in the CWaPE transitory tariff methodology.

First, the regulated assets acquired before 1st January 2014 are included in the regulated “primary asset” base (primary RAB) while those acquired after 1st January 2014 are included in the regulated “secondary asset” base (secondary RAB).

Secondly, the CWaPE authorized the DSOs to include in the regulated “secondary asset” the IT software’s considering their critical importance to the proper functioning of the DSOs.

Finally, conversely to the tariff methodology applicable during the period 2009-2012 (extended by the CREG until end 2014), the RAB, taken into account for the computation of the return on invested capital, no longer includes the net working capital requirement.

Return percentage

At the level of the financing structure, the CWaPE maintained the theoretical funding structure advocated by the CREG namely 33% of the equity and 67% of the borrowed funds; the excess part of the 33% of the equity being less remunerated.

The remuneration or return percentage used for the fair return on invested capital (share capital and other equity items) by shareholders in DSOs is in the CWaPE transitory tariff methodology calculated based on the following formula:

- Equity ≤ 33% of the RAB: Remuneration = (Risk-free interest rate + market risk premium * ß) * illiquidity factor;
- Equity > 33% of the RAB: Remuneration = Risk-free interest rate + 70 basis points.

Where :

- Market risk premium = 3.50%;
- ß = Bêta = 0.65 for electricity et 0.85 for gas;
- Illiquidity factor= 1.2 (if the DSO is not listed)
- Risk-free rate: is different depending on the applied tariff methodology. This may be the actual average return on the 10 years linear bonds of the Belgian State on the secondary market issued during the year concerned (applied to the secondary RAB) or issued during the year 2013 (applied to the primary RAB).

In the transitory tariff methodology of the CWaPE, this formula is applied differently depending on whether the primary RAB is used, in which the primary percentage is applied, or the secondary RAB is used, in which the secondary rate is applied.

Return applied to the regulated primary asset or primary return

This is a guaranteed return percentage for the regulatory period. The formula defining the computation of this percentage is given above. Nevertheless, the value of the ratio equity to RAB is set individually for each DSO according to its balance sheet structure as of 31 December 2013 and will not be re-evaluated during the regulatory period. In addition, the value of risk-free rate is fixed to the value of the average return OLO bonds with a ten years maturity, issued in 2013. The return percentage defined ex-ante is then frozen and will not be recalculated ex-post during the tariff period.

Return applied to the regulated secondary asset

The formula defining this return computation is also defined above. The first difference with the primary return is the value of risk-free rate, which is calculated ex-ante, based on forecasted values, including the return of OLO ten-year as published by the federal Planning Bureau.

This value will then be reviewed annually ex-post based on the actual value of the parameters, including the average return of the OLO ten years, issued during the year concerned. For the transitory regulatory period, an increase of 100 basis points is added to the value of the secondary return percentage obtained. The actual fair profit margin of the secondary RAB will be re-evaluated during each year of the regulatory period, on basis of the adjustments done to the RAB, to the financial structure and to the average risk-free rate of the OLO 10 years applied during the considered year.

Comparison of the "CWaPE method" return with the "CREG method" return

It is possible that the fair margin determined according to the transitory tariff methodology (CWaPE method) can be less than the fair margin that would have been determined by application of the tariff methodology of the CREG. To overcome this eventuality and avoid generating losses for the shareholders of the DSOs, the transitory tariff methodology guarantees to the DSOs the integration in the tariffs of any differential between the two fair margins.

As the regulated secondary asset will increase, this difference between the fair margins should reduce and disappear after a few years.

Incentive regulation mechanism

The tariff methodology includes an incentive mechanism (incentives or penalties) which pushes the DSOs to act more productively and efficiently. For the transitory tariff periods, this mechanism has taken the form of a limitation of manageable costs to the 2012 reality of these indexed costs. Indeed, at the end of the 2009-2012 regulatory period, it appeared that the budget made in 2008 did not reflect anymore the reality costs of the DSOs. Therefore, the CWaPE transitory tariff methodology sets the cap of the manageable costs based on the 2012 actuals manageable costs, adjusted to take into account the inflation.

For the 2015-2016, 2017 and 2018 tariff periods, two additional budgets are added to this cap:

- The first to cover the additional (transitional) costs generated by the implementation of the new federal clearing house developed by Atrias.

- The second to cover investments in smart metering/smart grids. Ex-post, the DSO must demonstrate that it has allocated to these new investments an amount equal to or greater than the amount of the adaptation of the ceiling granted ex-ante.

In addition, in order to promote natural gas and maximize its profitability, an adjustment of the manageable cost ceiling was granted to ORES Assets based on a profitable multi-year business case.

Tariff balances

The transitory tariff methodology foresees that the balances related to non-manageable costs are fully included in the tariffs and therefore in charge or in favor of the network users.

The transitional tariff methodology also allows the DSOs to begin recovering, gradually, from the 2015 financial year, the balances relating to non-manageable costs and volumes of the past (2008 to 2014)[6] through a deposit[7]. For the years of 2015 and 2016, this annual deposit corresponds to one-tenth of the cumulative total amount of the tariff balances related to the 2008-2013 financial years. For the 2017 and 2018 fiscal years, it corresponds to 20% of the cumulative total of the tariff balances for 2008-2014 fiscal years.

Thanks to these provisions, ORES Assets was able, at the end of 2017, to recover a portion of the accumulated tariff balances at the end of 2014 for a total amount of €33 million for all fluids combined (see note 01 B of the consolidated IFRS financial statements).

The balances of the years 2015 and 2016 as well as those of the following years will be progressively integrated during the tariff period 2019-2023.

Tariffs applicable in 2017-2018

The 2017 tariffs applicable on the territory of the Walloon municipalities of ORES Assets were approved by the CWaPE on 15 December 2016 and entered into force on 1 January 2017.

On 16th January 2017, the electricity DSOs active in the Walloon Region submitted to the CwaPE, charging rates for the use of the transport network and surcharges for the year 2017. The Executive committee of CWaPE validated these rates on 9 February 2017. They came into effect on March 1, 2017[8].

On 1st December 2017, the CWaPE adopted decisions to extend electricity and gas distribution rates applicable as of 31 December 2017, to 31 December 2018 included. In addition, due to the absence of a rate methodology specific to the 2018 regulatory period, the CWaPE has also adopted the tariff principles that will prevail during the 2018 operating year.

Finally, the CWaPE has also decided that the chargeback charges for the use of the transport system applicable as of 31 December 2017 will remain in effect until 28 February 2018 included.

Indeed, on 15th January 2018, the distribution system operators submitted to the CWaPE, chargeback charges for the use of the transport network and surcharges for the year 2018. These new chargeback rates for the use of the transport system came into effect on 1st March 2018[9].

A.15.2. TURNOVER

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- the amount of ordinary revenues can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the entity; and

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction has to be recognised by reference to the stage of completion of the transaction at the end of the reporting period.

Revenue is measured at the fair value of the counterpart received, less discounts, rebates and levies or taxes on the sales.

The Group turnover, corresponding to revenue according to IAS 18, mainly comprises revenue from the following activities:

- Transit fees and sale of energy in the context of public service obligations;

- Transfers of assets from customers;

- Construction contracts;

- Regulatory balances.

1. Transit fees and sale of energy in the context of public service obligations

The turnover of the Group is based primarily on revenue and expenses related to transit fees of the network for the distribution of electricity and gas. On behalf of energy suppli-

[6] Balances classified as balances of the past are the balances created under the tariff regulation of the CREG.
[7] The CWaPE wishes to completely clear these balances at the end of the year 2022.
[8] https://www.cwape.be/?lg=1&dir=7.6.5
[9] https://www.cwape.be/?lg=1&dir=7.8.5.

ers, the Group distributes electricity and gas to homes and companies connected to the network. In terms of electricity, transit fees include the fee for the transportation network that is exclusively managed by Elia. The transportation fee is invoiced to the Group by Elia and is recognised as a cost of sales (cascade principle) leading to a neutral impact on the income statement.

Revenue and expenses related to transit fees and the sale of energy in the context of public service obligations (including protected customers) are recognised when electricity or gas has been supplied to the customers connected to the network in the corresponding period. The amounts recognised as revenue are based on meter readings and on estimations for the unmetered part of the use of the network.

These estimates are adjusted at the end of the reporting period with the unmetered transit fee (RTNR) which is calculated based on the total actual volumes that have transited on the network.

2. Transfers of assets from customers

Transfers of assets from customers in the construction of connections or extensions to the network are presented and recognised as revenue generally when the service of connection or extension takes place.

3. Construction contracts

The turnover of the Group includes incomes from construction contracts for various works such as public lighting or network maintenance. If the end of a construction contract can be estimated reliably, revenues and expenses related to this contract are recognised in the income statement according to the percentage of completion of the contract.

4. Regulatory balances

The authorised revenues determined the enforced tariff methodology is based on the one hand, on all the necessary costs to carry out the tasks of the DSO and, on the other hand, on the fair margin for the remuneration of the capital invested in the infrastructure network. The comparison between this allowed revenue on non-controllable costs and amounts recognised as turnover and between the budgeted volumes and the real volumes transited on network determines the annual balances (assets and liabilities) that the DSO will have to pass on the tariffs in subsequent regulatory periods.

Annual balances and their impact on future tariffs are subject to approval by the regulator (see point A.15.1 above).

A.16. INCOME TAXES

Income tax expense represents the sum of the tax currently payable and deferred tax.

A.16.1. CURRENT TAX

The current tax payable is based on taxable profit for the year. Taxable profit differs from "profit before taxes" as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A.16.2. DEFERRED TAX

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets generally are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be used. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, no deferred tax liabilities have been recognised on the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries, joint operations, joint ventures, and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to use the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same tax entity; or on different tax entities but they intend to settle their current tax assets and liabilities on a net basis or to pay their current tax liabilities and to realize their current tax assets simultaneously.

A.16.3. CURRENT AND DEFERRED TAX FOR THE PERIOD

Current and deferred tax are recognised as an expense or income in the consolidated profit and loss account, except when they relate to items that are recognised outside profit and loss account (whether in other comprehensive income or directly in equity), in which case the current and the deferred tax are also recognised in other comprehensive income or directly in equity.

If the current or deferred tax arises from the initial accounting for a business combination. The tax effect is taken into account in the accounting for the business combination.

A.17. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and groups held for sale are classified as held for sale if it is expected that the carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is only met when the asset (or group held for sale) is available for immediate sale in its current condition, subject only to terms that are usual and customary for sales of such assets (or group held for sale) and when its sale is highly probable. Management must be committed to the sale and it must expect that the sale qualifies for recognition as a completed sale within one year from the date of its filing.

When the Group is engaged in a disposal plan involving a loss of control of a subsidiary, all the assets and liabilities of that subsidiary must be classified as held for sale when the criteria set forth above are met, whether or not the Group keeps a participation which is not giving the control in its ex-subsidiary after the sale.

When the Group is engaged in a sale plan involving the sale of a participation, or part of a participation in an associate or joint venture, the participation or the portion of the participation that will be disposed is then classified as held for sale when the above criteria are met and the Group ceases to use the equity method for the part classified as held for sale. Any participation retained in an associate or joint venture that has not been classified as held for sale continues to be accounted with the equity method.

The Group will cease to use the equity method at the time of the disposal when the disposal results for the Group in losing significant influence on the associate or joint venture.

After the disposal, the Group must account for the retained interests kept in the associate or joint venture in accordance with the IAS 39 unless the retained interest continue to constitute a participation in an associate or joint venture, in which case the Group is applying the equity method (see accounting policy for participations in associated companies or joint ventures above).

Non-current assets (and groups held for sale) classified as held for sale are measured at the lowest price between their carrying amount and their fair value decreased by their costs of sale. Any gain or loss on the revaluation of a non-current asset (or group held for sale) held for sale, excluding discontinued operations, is recognized directly upon its finding and is included in the income from continued operations.

B. CRITICAL ACCOUNTING JUDGEMENTS AND KEY ESTIMATES USED IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The preparation of the consolidated financial statements in accordance with IFRS requires making accounting estimates and requires management to exercise judgement in the application of the Group's accounting policies. Key assumptions related to the future and other main sources of uncertainty related to the estimates used in the preparation of the consolidated financial statements at the end of the reporting period are presented below.

B.1. SIGNIFICANT ESTIMATES IN THE APPLICATION OF THE ACCOUNTING POLICIES

B.1.1. ACTUARIAL OBLIGATIONS UNDER PENSION PLANS, OTHER POST-EMPLOYMENT BENEFITS AND OTHER LONG-TERM BENEFITS

Obligations of the Group related to pension plans are valued annually by independent actuaries. Management determines the actuarial assumptions used for the valuation of these obligations. The Group believes that the assumptions used are appropriate and justified. Actuarial assumptions used by the Group include the following elements:

- Discount rate
- Expected growth rate of wages
- Average inflation rate
- Employee turnover
- Mortality table
- Amounts of tariff reductions
- Amounts of medical costs

B.1.2. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of derivative financial instruments held by the Group is calculated based on market values by an external valuation company for all the IRS, and directly by the Group for the valuation of the CAP and collars in collaboration with financial institutions.

B.1.3. MEASUREMENT OF THE PROVISIONS

All significant legal litigations are reviewed regularly by the Legal department of the Group with the support of the Group's finance department and external counsels when appropriate. This review includes an assessment of the need to recognise provisions or adapt existing provisions. The provisions that are recognised on litigations are based on the value of the claim or on the estimated amount of the exposure.

The valuation of the environmental provisions is based on studies conducted by independent experts making an estimate of the future costs of soil sanitation.

In all cases, the amount recorded by the Group as a provision corresponds to the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

B.1.4. IMPAIRMENT TESTS

The Group tests goodwill for impairment annually, as well as cash-generating units for which there are indicators that tend to demonstrate that the carrying amount might exceed the recoverable amount.

To determine if it is appropriate to recognise an impairment loss, it is necessary to estimate the value in use of the cash-generating unit. The calculation of the value in use requires management to estimate the future cash flows that will be generated by the cash-generating unit (for goodwill, by the cash-generating unit to which it has been allocated) and to apply an appropriate discount rate to calculate the present value (see note 8 in the notes to the financial statements).

B.1.5. DISTRIBUTED VOLUMES

Amounts recognised as revenue are based on meter readings and estimates for the unmetered part of the use of the network. These estimates are adjusted at the end of the reporting period with the unmetered transit fee (RTNR) which are calculated based on total volumes that have transited on the network.

B.2. SIGNIFICANT JUDGMENT APPLIED TO THE ACCOUNTING POLICIES

B.2.1. TURNOVER MEASUREMENT

B.2.1.1. Regulatory balances

Currently, there are no specific IFRS dealing with the accounting treatment of regulated balances in a regulated environment. Discussions are in progress within the IASB concerning the publication of new standard on rate-regulated activities that would clarify the accounting treatment.

In this context, a transitional standard was published in January 2014 (IFRS 14 – Regulatory Deferral Accounts) but applies only to first-time adopters of IFRS. It explicitly allows the recognition of regulated assets and liabilities within the statement of financial position and these assets and liabilities should be presented in a separate caption, distinct from the other assets or liabilities. The Group took the assumption that these balances would be recovered in the future and are therefore recognised as an asset or a liability. If it turns out that the accounting treatment adopted by the Group was not in line anymore with the future guidelines published by the IASB, future results as well as equity would have to be adjusted.

B.2.1.2. Transfers of assets from customers (IFRIC 18 – Transfers of Assets from Customers)

The Group carries out connection and extension works on the gas and electricity network, for which transfers of assets from customers are required. In this case, the Group considers whether the transfer of assets from customers is within the scope of the interpretation IFRIC 18 on the basis of all facts and circumstances and, where applicable, the transfer is recognised as turnover.

B.2.2. CLASSIFICATION DEBT/EQUITY

The Group reviews all relevant facts and circumstances to determine whether an instrument is a debt instrument or an equity instrument in accordance with IAS 39 – Financial Instruments: Recognition and Measurement. The Group determined that the different categories of shares represented the capital (see the note 15 in the notes to the financial statements) are equity instruments.

B.2.3. EXISTENCE OF AN OBLIGATION IN APPLICATION OF IAS 37

The Group determines on case by case basis whether there is an obligation that could have a negative impact on its financial position. Indeed, the Group regularly reviews pending litigations and determines whether it is probable that the settlement of the obligation will require an outflow of resources. If this is the case, provisions are recognised up to the best estimate of the consideration required to settle the obligation (the outcome of the procedures cannot be predicted with certainty).

B.2.4. DEFERRED TAX

Following the vote of the law by the Federal Parliament on 19 December 2014 and published in the Belgian Official Gazette on 29 December 2014 results in ORES Assets being subject to income tax instead of the tax on the legal entities, as from the fiscal year 2016 (2015 income). Due to this change in fiscal status for the mother company, the Group decided to recognise a deferred tax in its consolidated financial statements at year-end 2014, resulting in the offsetting of the deferred taxes arising from the subsidiary and the mother company.

C. CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

A change in accounting policy is applied only if the change is required by a standard or an interpretation or it results in the financial statements providing more reliable and relevant information. Early application of a standard or an interpretation is not a voluntary change in accounting policies with reference to IAS 8.

A change in accounting policy is applied retrospectively unless it is impracticable to determine the period-specific effects for one or more periods presented. In addition, a change in accounting policy upon initial application of an IFRS that includes specific transitional provisions applying to that change is not applied retrospectively.

Even if great attention is placed on the preparation of the Group financial statements, errors may occur during the recognition, measurement, valuation, presentation or the inclusion of information on items of the financial statements.

If necessary, the Group retrospectively corrects significant errors from prior periods in the first financial statements authorised for issue after the discovery of these errors.

Uncertainties related to the Group's activities require the use of estimates in the preparation of the financial statements. The use of estimates is an important part of the preparation of the financial statements and does not undermine their reliability. An estimate is revised if changes occur in the circumstance on which it was based, or if new information is available. The revision of an estimate does not relate to prior periods and is not a correction of error.

ORES

IV. Independent auditor's report

Ores Assets SCRL

Statutory auditor's report to the general meeting of the company for the year ended 31 December 2017 under IFRS

In the context of the statutory audit of the consolidated accounts of Ores Assets (the Company) and its subsidiaries (together referred to as 'the Group'), we hereby present our statutory auditor's report. It includes our report on the audit of the consolidated accounts as well as our report on the other legal and regulatory requirements. These reports form part of an integrated whole and are indivisible.

We have been appointed as statutory auditor by the General Meeting of 23 June 2016, following the proposal formulated by the board of directors issued upon presentation by the Works Council. Our statutory auditor's mandate expires on the date of the General Meeting deliberating on the consolidated accounts closed on 31 December 2018. We have performed the statutory audit of the consolidated accounts of the company Ores Assets for five consecutive years.

REPORT ON THE AUDIT OF THE CONSOLIDATED ACCOUNTS

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated accounts, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated statement of financial position total of € (000) 4.513.584 and for which consolidated income statement and other comprehensive income shows a profit for the year of € (000) 232.492.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and financial position as at 31 December 2017, as well as of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the 'Statutory auditor's responsibilities for the audit of the consolidated accounts' section in this report. We have complied with all the ethical requirements that are relevant to the audit of consolidated accounts in Belgium, including those concerning independence.

We have obtained from the board of directors and company officials the explanations and information necessary for performing our audit.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

AUDIT | TAX | CONSULTING

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Responsibilities of the board of directors for the consolidated accounts

The board of directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory provisions applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatements, whether due to fraud or error.
In preparing the consolidated accounts, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a statutory auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

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

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control ;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control ;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors ;

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern ;

- Evaluate the overall presentation, structure and content of the consolidated accounts and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation ;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the management, the supervision and the performance of the Group audit. We assume full responsibility for the auditor's opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during the audit.

RSM

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Responsabilities of the board of dierctors

The board of directors is responsible for the preparation and the contents of the management report on the consolidated accounts.

Responsibilities of the statutory auditor

In the context of our mandate and in accordance with the Belgian standard (revised) that is supplementary to the International Standards on Auditing (ISA) as applicable in Belgium, it is our responsibility to verify, in all material aspects, the management report on the consolidated accounts, as well as to report on this element.

Aspects relating to the management report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the management report, the management report is consistent with the consolidated accounts for the same same financial year, and it is prepared in accordance with article 119 of the Company Code.

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge we have obtained during the audit, whether the management report on the consolidated accounts contains any material misstatements, i.e. any information which is inadequately disclosed or otherwise misleading. Based on the procedures we have performed, there are no material misstatements we have to report to you.

We do not express any form of assurance whatsoever on the management report on the consolidated accounts.

Statement concerning independence

- Our audit firm and our network did not provide services which are incompatible with the statutory audit of consolidated accounts, and we remained independent of the Group throughout the course of our mandate.
- The fees related to additional services which are compatible with the statutory audit as referred to in article 134 of the Company Code were duly itemised and valued in the notes to the consolidated accounts.

Gosselies, 28 May 2018

RSM INTERAUDIT SCRL
STATUTORY AUDITOR
REPRESENTED BY
THIERRY LEJUSTE
PARTNER

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