ORES

ORES Assets scrl
Consolidated IFRS accounts

# 2018

Name and form :
ORES Assets. Cooperative intermunicipal association with limited liability.

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

Incorporation :
Deed of incorporation published in the appendices of the *Moniteur belge* [Belgian Official Journal] on 10 January 2014 under number 14012014.

Articles of association :
The articles of association were last changed on 28 June 2018 and published in the appendices of the *Moniteur belge* on 3 July 2018 under number 2018-07-03/0320055.

# Contents

# 1. Consolidated IFRS financial statements

## 1.1. Consolidated profit and loss statement (in thousands of €)

| | NOTE | 31/12/2018 | 31/12/2017 | Difference |
|---|---|---|---|---|
| Turnover | 01-A | 1,178,368 | 1,182,223 | (3,855) |
| Tariff balances | 01-B | 5,800 | (14,104) | 19,904 |
| Other operating income | 02 | 28,554 | 38,160 | (9,606) |
| **Operating income** | | **1,212,722** | **1,206,279** | **6,443** |
| Supplies and goods | 03 | (60,783) | (68,687) | 7,904 |
| Transport fees | 03 | (358,930) | (350,120) | (8,810) |
| Road charges | 03 | (45,278) | (43,168) | (2,110) |
| Staff costs | 20-21 | (128,121) | (129,694) | 1,573 |
| Write-downs on trade receivables | 12 | (19,472) | (10,495) | (8,977) |
| Other operating expenses | 04 | (146,803) | (126,615) | (20,188) |
| **Operating expenses** | | **(759,387)** | **(728,779)** | **(30,608)** |
| **Operating profit/loss before amortisation and depreciation on fixed assets** | | **453,335** | **477,500** | **(24,165)** |
| Amortisation and depreciation on fixed assets | 09-10 | (164,243) | (157,268) | (6,975) |
| **Operating profit/loss** | | **289,092** | **320,232** | **(31,140)** |
| Financial income | 05 | 681 | 356 | 325 |
| Financial expenses | 06 | (55,947) | (54,565) | (1,382) |
| **Financial profit/loss** | | **(55,266)** | **(54,209)** | **(1,057)** |
| Share in the profit/loss of associated companies | 26 | | | |
| **Profit/loss before tax** | | **233,826** | **266,023** | **(32,197)** |
| Tax | 23 | (71,413) | (67,696) | (3,717) |
| **Profit/loss for the period** | | **162,413** | **198,327** | **(35,914)** |
| Profit/loss for the period attributable to the group | | 162,413 | 198,327 | (35,914) |
| Profit/loss for the period attributable to third parties | | 0 | 0 | 0 |

## 1.2. Total consolidated profit/loss (in thousands of €)

| | NOTE | 31/12/2018 | 31/12/2017 | Difference |
|---|---|---|---|---|
| **Profit/loss for the period** | | **162,413** | **198,327** | **(35,914)** |
| **Other elements of the overall profit** | | | | |
| ***Elements recyclable to the profit and loss account*** | | ***1,846*** | ***73,602*** | ***(71,756)*** |
| Variation in fair value of cash flow hedging instruments | 28 | 2,462 | 10,341 | (7,879) |
| Tax on other elements likely to be reclassified as profit | 24 | (616) | 63,261 | (63,877) |
| ***Elements which will not be recycled to the p&l account*** | | ***5,507*** | ***(39,438)*** | ***44,945*** |
| Actuarial variation on defined-benefit systems | 22 | 7,342 | (44,272) | 51,614 |
| Tax on other elements which will not be reclassified as profit | 24 | (1,835) | 4,834 | (6,669) |
| **Other elements of the overall profit on continued activities - Net** | | **7,353** | **34,164** | **(26,811)** |
| Other elements of the overall profit attributable to the Group | | 7,353 | 34,164 | (26,811) |
| Other elements of the overall profit attributable to third parties | | 0 | 0 | 0 |
| **Total profit/loss for the period** | | **169,766** | **232,491** | **(62,725)** |

## 1.3. Consolidated statement of the financial situation – assets (in thousands of €)

| ASSETS | NOTE | 31/12/2018 | 31/12/2017 | Difference |
|---|---|---|---|---|
| **Non-current assets** | | **4,121,912** | **3,910,548** | **211,364** |
| Premium | 08 | 8,955 | 8,955 | 0 |
| Intangible fixed assets | 09 | 99,242 | 69,727 | 29,515 |
| Tangible fixed assets | 10 | 3,992,046 | 3,819,870 | 172,176 |
| Shareholdings in associated companies | 26 | 3 | 3 | 0 |
| Other non-current assets | 11 | 21,666 | 11,993 | 9,673 |
| **Current assets** | | **369,484** | **485,553** | **(116,069)** |
| Inventories | 13 | 37,764 | 37,204 | 560 |
| Trade receivables | 12 | 135,915 | 184,138 | (48,223) |
| Other receivables | 12 | 51,326 | 53,298 | (1,972) |
| Current tax assets | 12 | 6,634 | 78 | 6,556 |
| Cash and cash equivalents | 14 | 115,797 | 192,912 | (77,115) |
| Other current assets | | 22,048 | 17,923 | 4,125 |
| **Total assets excluding tariff receivables** | | **4,491,396** | **4,396,101** | **95,295** |
| Tariff receivables | 01-B | 117,211 | 117,483 | (272) |
| **TOTAL ASSETS** | | **4,608,607** | **4,513,584** | **95,023** |

## 1.4. Consolidated statement of the financial situation – liabilities (in thousands of €)

| LIABILITIES | NOTE | 31/12/2018 | 31/12/2017 | Difference |
|---|---|---|---|---|
| **Equity** | | **1,696,116** | **1,589,784** | **106,332** |
| Capital | | 713,028 | 712,257 | 771 |
| Profit/loss carried over | | 922,770 | 869,793 | 52,977 |
| Other reserves | | 60,291 | 7,707 | 52,584 |
| Non-controlling interests | | 27 | 27 | 0 |
| **Non-current liabilities** | | **2,401,618** | **2,399,910** | **1,708** |
| Borrowings | 16 | 1,991,843 | 2,007,442 | (15,599) |
| Provisions for employee benefits | 20 | 83,273 | 102,768 | (19,495) |
| Other provisions | 19 | 54,030 | 33,670 | 20,360 |
| Deferred tax liabilities | 24 | 267,662 | 246,017 | 21,645 |
| Other non-current liabilities | 18-28 | 4,810 | 10,013 | (5,203) |
| **Current liabilities** | | **466,828** | **473,791** | **(6,963)** |
| Borrowings | 16 | 245,322 | 253,513 | (8,191) |
| Commercial debts | 17-18 | 166,178 | 159,297 | 6,881 |
| Other debts | 17-18 | 48,810 | 54,283 | (5,473) |
| Current tax liabilities | 23 | 895 | 3,920 | (3,025) |
| Other current liabilities | 17-18 | 5,623 | 2,778 | 2,845 |
| **Total liabilities excluding tariff debts** | | **4,564,562** | **4,463,485** | **101,077** |
| Tariff debts | 01-B | 44,045 | 50,099 | (6,054) |
| **TOTAL LIABILITIES** | | **4,608,607** | **4,513,584** | **95,023** |

## 1.5. Consolidated statement of changes in equity (in thousands of €)

| | Capital | Reserves: Cash flow hedges | Reserves: Actuarial gains and losses on defined pension benefit plans | Reserves: Statutory reserves | Reserves: Total | Profit/loss carried over | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2018** | **712,257** | **60,033** | **(85,209)** | **32,883** | **7,707** | **869,793** | **27** | **1,589,784** |
| **Overall profit/loss for the period** | | | | | | | | |
| Group's retained profit | | | | 748 | 748 | 161,665 | | 162,413 |
| Other elements of the overall profit, net of tax | | 1,846 | 5,507 | | 7,353 | | | 7,353 |
| **Transactions with shareholders** | | | | | | | | |
| Dividends paid for the previous financial year | | | | | | (81,187) | | (81,187) |
| Capital increase by creating A shares | 18,153 | | | | | | | 18,153 |
| Capital increase by creating R shares | 1,500 | | | | | | | 1,500 |
| Capital increase following the addition of the PBE municipalities | 1,043 | | | 14,090 | 14,090 | 6,889 | | 22,022 |
| Capital decrease be converting R shares to A shares | (11,252) | | | | | | | (11,252) |
| Capital decrease be redeeming R shares | (8,673) | | | | | | | (8,673) |
| Distribution of reserves | | | | (3,997) | (3,997) | | | (3,997) |
| **Transfers** | | | | | | | | |
| Capital increase by incorporating reserves | | | | | | | | |
| Transfers to or from the (statutory) reserves | | | | 34,390 | 34,390 | (34,390) | | 0 |
| **As at 31 December 2018** | **713,028** | **61,879** | **(79,702)** | **78,113** | **60,291** | **922,770** | **27** | **1,696,116** |

| | Capital | Reserves: Cash flow hedges | Reserves: Actuarial gains and losses on defined pension benefit plans | Reserves: Statutory reserves | Reserves: Total | Profit/loss carried over | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2017** | **795,979** | **(13,569)** | **(45,771)** | **27,636** | **(31,704)** | **785,317** | **31** | **1,549,622** |
| **Overall profit/loss for the period** | | | | | | | | |
| Group's retained profit | | | | 744 | 744 | 197,587 | (4) | 198,327 |
| Other elements of the overall profit, net of tax | | 73,602 | (39,438) | | 34,164 | | | 34,164 |
| **Transactions with shareholders** | | | | | | | | |
| Dividends paid for the previous financial year | | | | | | (84,247) | | (84,247) |
| Capital increase by creating A shares | 21,810 | | | | | | | 21,810 |
| Capital decrease be converting R shares to A shares | (6,728) | | | | | | | (6,728) |
| Capital decrease be redeeming R shares | (98,804) | | | | | | | (98,804) |
| Distribution of reserves | | | | (24,360) | (24,360) | | | (24,360) |
| **Transfers** | | | | | | | | |
| Transfers to or from the (statutory) reserves | | | | 28,864 | 28,864 | (28,864) | | 0 |
| **As at 31 December 2017** | **712,257** | **60,033** | **(85,209)** | **32,883** | **7,707** | **869,793** | **27** | **1,589,784** |

## 1.6. Consolidated statement of cash flows (in thousands of €)

| | NOTE | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **Cash flow associated with operations** | | | |
| **Profit/loss for the period** | | **162,413** | **198,327** |
| Adjustments to take into account the following elements: | | | |
| Amortisation and depreciation on fixed assets | 09-10 | 164,243 | 157,268 |
| Changes in provisions | 19-20 | 7,962 | (35,101) |
| Gains on the sale of fixed assets | 09-10 | (528) | (350) |
| Write-downs on trade receivables | 12 | 19,807 | 11,159 |
| Write-downs on inventories | | 424 | 0 |
| Financial income | 05 | (681) | (356) |
| Financial expenses | 06 | 55,947 | 54,565 |
| Income tax expenses recognised in the profit and loss statement | 23 | 71,413 | 67,696 |
| Tariff balances | 01-B | (26,917) | 4,066 |
| ***Operating cash flow before changes in working capital*** | | ***454,083*** | ***457,274*** |
| **Changes in working capital** | | | |
| Change in inventories | 13 | (984) | (3,635) |
| Change in trade receivables and other receivables | 12 | 24,127 | (5,010) |
| Change in trade debts and other debts | 17 | 1,360 | (10,315) |
| ***Cash flow associated with operations*** | | ***478,586*** | ***438,314*** |
| Interest paid | 06 | (60,381) | (59,449) |
| Interest received | 05 | 646 | 283 |
| Taxes paid or received | | (61,786) | (51,004) |
| Tariff balances recovered | 01-B | 21,117 | 10,038 |
| **Net cash flow associated with operations** | | **378,182** | **338,182** |

| | NOTE | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **Cash flow associated with investments** | | | |
| Purchase of intangible fixed assets | 09-10 | (41,051) | (36,071) |
| Purchase of tangible fixed assets | 09-10 | (295,502) | (260,673) |
| Sale of tangible fixed assets | 09-10 | 718 | 2,124 |
| Other cash flow associated with investments | 26 | (12,047) | 0 |
| **Net cash flow associated with investments** | | **(347,882)** | **(294,620)** |
| **Cash flow associated with financing** | | | |
| Change in capital | 15 | (272) | (83,722) |
| Borrowings issued | 16 | 274,800 | 557,800 |
| Borrowings repaid | 16 | (298,932) | (314,565) |
| Loans and securities issued and repaid | 11 | (621) | (1,336) |
| Dividends paid | 15 | (82,408) | (113,235) |
| Capital subsidies | | 18 | 71 |
| Purchase/transfer of shares (without losing control) | 25 | 0 | (4) |
| **Net cash flow associated with financing** | | **(107,415)** | **45,009** |
| **Change in cash and cash equivalents for continued operating activities** | | **(77,115)** | **88,571** |
| **Cash and cash equivalents at the start of the period** | | **192,912** | **104,341** |
| **Cash and cash equivalents at the end of the period** | | **115,797** | **192,912** |

## 1.7. Change in liabilities arising from financing activities (in thousands of €)

| | | | | Non-cash changes | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Cash flow associated with financing activities | Cash flow associated with operating activities | Reclassification | Purchase/transfer of shares | Change in fair value | Other | Total | |
| | 01/01/2018 | | | | | | | | 31/12/2018 |
| Other non-current assets | 11,993 | (772) | (3,533) | | | (5,369) | | (5,369) | 21,667 |
| Other receivables | 53,298 | (44,465) | (659) | 47,241 | | | (145) | 47,096 | 51,326 |
| Equity | 1,589,784 | (36,595) | 184,435 | (48,861) | | 7,353 | | (41,508) | 1,696,116 |
| Long-term borrowings | 2,007,442 | 123,400 | | (139,587) | | 587 | | (139,000) | 1,991,842 |
| Short-term borrowings | 253,513 | (147,531) | | 139,587 | | (247) | | 139,340 | 245,322 |
| Other non-current liabilities | 10,013 | 150 | | | | (5,353) | | (5,353) | 4,810 |
| Other debts | 54,283 | (1,620) | (5,473) | 1,620 | | | | 1,620 | 48,810 |
| Other current liabilities | 2,777 | 18 | (31) | | | 2,891 | (33) | 2,858 | 5,622 |
| | **3,983,103** | **(107,415)** | **174,739** | **0** | **0** | **(138)** | **(178)** | **(316)** | **4,065,515** |
| | 01/01/2017 | | | | | | | | 31/12/2017 |
| Other non-current assets | 8,505 | (1,315) | (1,790) | | (4) | (379) | | (383) | 11,993 |
| Other receivables | 49,031 | (47,242) | 643 | 42,614 | | | (282) | 42,332 | 53,298 |
| Equity | 1,549,622 | (144,459) | 198,327 | (47,874) | 4 | 34,164 | | (13,706) | 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 | | (8,191) | | (8,143) | 10,013 |
| Other debts | 70,618 | (11,553) | (11,355) | 6,574 | | | | 6,574 | 54,284 |
| Other current liabilities | 7,116 | 71 | (2,219) | | | (2,150) | (41) | (2,191) | 2,777 |
| | **3,716,223** | **45,009** | **183,606** | **0** | **0** | **23,079** | **(323)** | **22,756** | **3,983,104** |

# 2. Notes on the consolidated Financial Statements

# Preliminary note on the appendices to the consolidated financial statements

## Reporting entity and ORES group

The ORES group (hereinafter referred to as the "Group") is made up, on the one hand, of ORES Assets scrl, created as a result of the merger of eight Walloon mixed gas and electricity intermunicipal companies on 31 December 2013, with a retroactive effect as from 1 January 2013 (hereinafter referred to as "DSO" or ORES Assets), and on the other hand, ORES scrl (hereinafter referred to as "ORES scrl"), almost all of whose shares are owned by ORES Assets (99.72%), with the balance being owned by the purely financing intermunicipal companies associated within ORES Assets.

In addition, there is also a company partially owned by ORES scrl: Atrias, at 16.67%. Due to ORES scrl's significant influence on this company, the Group decided to consolidate it using the equity method.

Since 1 January 2017, the DSO is 100% owned by the public authorities (municipalities in the territory in which it operates or pure financing intermunicipal companies).

The Group is only active in Belgium, and more specifically in Wallonia, in the territory of the municipalities that are the DSO's shareholders. The Groups' address is Avenue Jean Monnet 2, 1348 Louvain-la-Neuve (Belgium), which is also the address of ORES Assets' registered office.

## Approval of the consolidated financial statements

ORES Assets' Board of Directors approved the Group's consolidated financial statements and authorised their publication on 3 April 2019.

## Significant events in 2018

### Average fair remuneration of invested capital (REMCI)

The REMCI (Rémunération Equitable Moyenne des Capitaux Investis or average fair remuneration of invested capital) is the remuneration that ORES Assets is entitled to for its "network operation" activity, and constitutes a significant proportion of the Group's profit. At the end of 2018, it amounted to:

- electricity: €60,268,000 compared with €58,352,000 in 2017, so +3.3%;
- gas: €31,553,000 compared with €30,373,000 in 2017, so + 3.9%.

Compared with the end of 2017, the remuneration rate applied to the secondary RAB (mainly based on the average 10-year OLO rate for the year in question) has gone up (the average 10-year OLO rate for 2018 was 0.81% compared with 0.74% at the end of 2017). 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-year OLO rate for 2013, i.e. 2.43%.

It is also worth remembering that the factors for determining the REMCI are described in the accounting policies, included in the appendices of this annual report.

### Miscellaneous - 2018 at a glance

January

Chastre, Incourt, Perwez and Villers-la-Ville join ORES on 1 January. The four municipalities in Brabant entrust ORES with the responsibility of managing their electricity distribution networks. For the inhabitants of these municipalities, this means a reduction of around 22% in the "distribution" element of their bills.

February

The Salon des Mandataires takes place in Marche-en-Famenne. ORES takes part in the event and talks to representatives from Wallonia's political scene about future updates to the municipal public lighting infrastructures with LEDs.

March
The European Investment Bank (EIB) and ORES organise an official ceremony in Namur following the signature of loan agreements for a total of €550 million. These loans, with attractive terms, secured thanks to the European institution's 'AAA' rating, will cover almost 50% of the organisation's investment costs over the next five years. A quarter of the totals allocated will be dedicated to environmentally friendly projects.

April
The "Décret Impétrants" (Utilities Decree) comes into force in Wallonia. To put an end to all the roadworks, from now on, network operators and local authorities will need to work together and comply with an integrated process, via the online platform, "Powalco", before starting such work.

June
ORES and ORES Assets hold their respective Annual General Meetings. At these meetings, the joint shareholders approve the Group's 2017 accounts and the payment of dividends. The joint shareholders also vote on the changes to the articles of association needed in particular to introduce a new dividends policy, applicable as of the 2019 financial year, as well as on the transposition of the new governance policy for intermunicipal companies. Lastly, it is also at these Annual General Meetings that the first corporate social responsibility report is presented.

August
The CWaPE approves ORES' "authorised income" proposals for 2019 - 2023. By doing this, the Walloon Energy Market Regulator (CWaPE) grants the organisation the budgets needed for the smooth running of its activities for the next five years. This decision demonstrates the regulator's support for ORES' industrial plans and approach to its transformation.

September
ORES and RESA sign a cooperation agreement. Wallonia's two main energy network operators thus formalise their desire to nurture synergies that will help them make economies of scale and improve customer service.

October
Between October and December, ORES purchases some of the bonds issued in October 2012 due to mature on 2 October 2021. Following on from this transaction, and the cancellation of the bonds thus purchased, the total bond issue is reduced by €59.4 million to €290.6 million.

November
At its General Meeting, ORES Assets approves the plan to take over the municipalities of Celles, Comines-Warneton, Ellezelles and Mont-de-l'Enclus. This takeover, which comes into effect on 1 January 2019, follows on from the latest government reform and the regionalisation of the rules surrounding network management, including in particular when it comes to tariffs. At the same General Meeting, the company's new 2019 - 2025 strategic plan is also approved by the Group's shareholders.

December
ORES carries out a number of different transactions to guarantee funding for its activities. €100 million is drawn down from the loan granted by the European Investment Bank (EIB), two bank loans are taken out from BNP Paribas Fortis (€30 million for a five-year term) and Belfius (€50 million for a four-year term). As in previous years, a capital increase of €6.9 million is carried out by shareholders at the end of 2018. Lastly, within the context of implementing the new dividend policy, any shareholders who wanted to could ask for their R shares to be redeemed. Once these requests had been received, for €8.5 million, they were presented to the General Meeting in November 2018 and redeemed by 31 December.

## Dividends

We should also point out that, at the ORES Assets Annual General Meeting on 28 June 2018, its shareholders approved the payment of total gross dividends worth €105.55 million (€71.5 million Euros for electricity distribution and €34 million for natural gas distribution), excluding the fees for using the public highway.

## Report on risks and uncertainties

The following paragraphs describe the measures taken to resolve the main known risks and uncertainties faced by the ORES group. Risk management is a key process when it comes to helping ORES fulfil its strategic goals, as documented in the strategic plan. In 2018, ORES established a new methodology for managing risks. This process identifies, analyses and assesses the relevant risks according to their nature, the probability that they will occur and their potential impact on the fulfilment of ORES' goals. The methodology used in this process is described in the 2018 financial report relating to the BGAAP consolidated accounts for ORES Assets, and more specifically in the section entitled "Description of the main characteristics of the internal auditing and risk management systems". The results for 2018 are explained in more detail below, with the exception of types for which the risk assessment is low (image/reputation, governance, legal, technological). This is a snapshot of the risks at the end of August 2018. As well as this, certain unidentified risks may exist or, while they may seem limited today, may become more significant in the future. However, the purpose of the new methodology is to reduce the probability of ignoring a severe risk by empowering all the departments and thus expanding the sources of information.

### Risks associated with human ressources

Risks relating to human resources encompass the risks associated with the company's human capital.

These risks:

- are directly linked to the company's overall performance areas (economic and financial);
- may have a significant, long-term impact within the company.

These risks may in particular reduce the company's capacity to access the staff it needs to operate successfully. This means an adequate number of members of staff, but also members of staff who are competent and motivated.

The transformation plan defined by ORES and its projects and programmes require significant human resources. As well as this, continuity and quality of service must be maintained at all times, as electricity and gas are essential basic necessities, the distribution of which cannot be suspended due to transformation measures.

Three potential risks have thus been identified in terms of human resources:

- the sustainability of the workload, mainly for resources involved in the transformation being implemented at the same time as ensuring business-as-usual;
- the capacity to attract, recruit and keep the talented individuals needed, particularly in highly competitive sectors such as IT;
- the management of salary costs in the medium- and long-term, in relation to the pricing envelope granted by the regulator for the 2019-2023 period and ORES' goal to guarantee pricing management and stability.

A huge programme has been developed to anticipate, manage and overcome these risks.

An impact analysis is carried out with the projects. The purpose of this is to optimise the way the company is organised in relation to the needs of projects and the wellbeing of workers. In practical terms, it involves encouraging career changes for some members of staff, introducing career meetings, adopting a new approach to managing mobility and identifying critical positions and high levels of potential.

The recruitment policy has been adapted to the new challenges. New recruitment channels, focusing mainly on digital solutions, have been put in place. Recruitment is increasingly geared towards candidates' capacity to learn and change.

Alongside this, more attention is paid to the wellbeing and working environment of workers. An employee satisfaction survey is carried out using different tools: wellbeing questionnaire, employee satisfaction "thermometer", vox pops. ORES has established an environment that encourages creativity, interaction and wellbeing in the workplace.

The issue of "human resources" is regularly monitored on the basis of key indicators. Particular attention is paid to analysing absenteeism and support when returning to work.

Special attention is paid to managing salary costs. Remuneration systems, including salaries and non-salary items, are regularly reviewed in order to keep changes in salary costs under control in the medium- and long-term, whilst also guaranteeing respect for legislation and applicable agreements on the one hand, and attracting and retaining qualified individuals on the other.

Internal control when it comes to salary costs is also consolidated, alongside tax and social security monitoring.

## Risks associated with strategy

This type encompasses the risks associated with ORES' ability to define and implement a strategy and action plan in the form of concrete programmes and projects.

These risks may manifest themselves as difficulties

- understanding the environment outside the company;
- putting together strategies that are visionary enough to ensure the organisation's relevance and longevity;
- communicating the strategy at organisational level;
- completing strategic programmes and projects successfully.

The context of distributing electricity and gas is faced with increasingly rapid and uncertain changes. This means that there is growing tension between the company's desire to implement a strategy designed to anticipate the needs of customers and the expectations of authorities, and the risk that changes in legislation or technology could have a significant impact on this strategy.

On this basis, a major risk for 2018 was the change to the strategy for rolling out smart meters introduced by the Walloon government. Although the draft decree approved at its first reading by the Walloon government included a widespread roll-out plan in line with ORES' project, the final text stipulates a partial roll-out for network operators, limited to certain groups of customers.

The uncertainty in relation to Atrias' ability to be operational in 2020 is also a risk factor. The development of this new federal clearing house for managing data and processes connected to the electricity and gas supply market is indeed experiencing a number of difficulties, creating uncertainty about the timing and the perimeter.

Lastly, more generally, there is a question about the company's ability to adapt to a context that is changing increasingly rapidly and unpredictably.

ORES reacted immediately to the change in the roll-out strategy for smart meters that was suddenly introduced by the regional authorities. The programme was reorganised and considerable work was done to identify what to keep and the changes to be made to respond to the new legal requirements. Synergies were pursued and developed with the other major DSO in the Walloon Region, RESA, to come up with the most effective joint solutions possible.

The development of the Atrias project is closely monitored by the Management Committee. Factors dependent on other programmes and the transformation plan, as well as the financial impacts and any impact on the company's legal obligations are identified and monitored on an ongoing basis. The necessary resources are mobilised to make sure that ORES' contribution to this federal project is at the required level.

As far as the company and its strategy's ability to adapt are concerned, the strategic plan is updated annually to make sure it is relevant to the context outside the company. In 2018 there was a major overhaul of the strategic plan (still in keeping with the original one), setting a framework for 2019-2025, incorporating the transformation plan in particular.

## Economic and financial risks

Tariff-related risk

ORES' activities are governed by a major legislative and regulatory framework, the main two elements of which are the tariff decree and the tariff methodology, drawn up on the basis of this decree by the CWaPE. In particular, this framework defines the means available to the DSO to fund its activities (authorised income) or a collection of rules that may have a positive or negative impact on shareholders' remuneration (incentive-driven regulation mechanism). The decisions taken by the regulator within the context of the 2019-2023 tariff methodology could put pressure on ORES' authorised income, which could have an impact on the quality of services and/or the fulfilment of some of the company's targets. The tariff methodology, more incentive-driven than previous ones, also presents some risks, including for example differences in controllable costs, non-compliance with the incentive-driven mechanisms, or going over budget for specific projects. To mitigate this risk, a number of measures have been taken within the context of approving the 2019-2023 tariffs: caution when preparing budgets used as the basis for the authorised income, monthly monitoring of the main cost components etc. ORES' authorised income for 2019-2023 was approved in 2018, as was its roll-out to tariffs in 2019, so this risk has gone down.

Lastly, the company must make sure that it respects financial covenants, which are now monitored on a regular basis.

The other financial risks are described in note 31 of this report.

Tax risk

ORES Assets scrl and ORES scrl are subject to corporation tax. Currently, the tariff methodology stipulates that any fiscal charges are incorporated into tariffs and as a result, the impact of changes in tax legislation is limited for the ORES group.

Assets and liabilities and liquidity risks

Within the context of managing these risks and invoicing fees to use the networks, ORES has financial guarantees from all of the energy suppliers active on the network. These financial guarantees are defined by the contract granting access to the network and may be reviewed annually. The company is also reinforcing specific measures to recover debts relating to work carried out as part of operating the networks, by awarding public contracts to recovery companies (on this subject, see also note 31 of this report).

Macro-economic and financial climate risks
The current economic climate may have repercussions on the demand for electricity and natural gas, or on ORES' financing conditions, or even on the profit due to be distributed to shareholders. These risks and their effects are not normally borne by the Group. The tariff methodology means that they can be taken into account within the context of regulatory balances being approved and allocated, in theory, to the tariffs for the next regulatory period.

## Regulatory risks

This type encompasses the risks associated with a potential change (or an unwanted lack of change) in elements of the legislative and regulatory framework governing ORES (European, federal or regional legislation; regulator's decisions; market model).

This type takes on a particular dimension for a company with a public monopoly, whose scope of activities is heavily determined by the regulatory framework. In ORES' case, these mainly involve the roles imposed by Wallonia's electricity and gas decrees.

The risks associated with the tariff decree and methodology are covered by "Economic and Financial" risks.

The main regulatory risk identified in 2018 is linked to a collection of actual or potential changes to the regulatory framework that might result in a reduction in the volumes of electricity and gas billed. A framework more conducive to direct lines, an increase in requirements in terms of buildings' energy efficiency, new mechanisms for private networks etc. are some examples of these risks.

Structurally, ORES maintains extensive, proactive relationships with Walloon authorities and administrations, as well as all the stakeholders to keep them informed of the potential effects of the measures taken or envisaged by the authorities on the role of network operator. ORES is involved with discussions within the "Energy" division of the Economic, Social and Environmental Council of Wallonia (Conseil économique social et environnemental de Wallonie, CESW). This is an advisory body responsible for passing on views relating to energy policy at the request of the Government, the regional energy administration, the CWaPE or specific initiatives.

Concrete measures have also been introduced to anticipate and incorporate the main changes in society and the market model into ORES's activities and a sustainable approach to operating the network: a pilot e-cloud project designed to test collective self-consumption via the public network in a business park, a tariff analysis to incorporate the effects of new means of production and consumption, increased attention paid to the role of market facilitator (part of the DSO's legal responsibilities), the establishment of an innovation unit, the promogaz programme to increase the number of clients connected to the existing network, support for the use of CNG vehicles etc.

Focusing more specifically on the risk associated with the 2019 regional elections, the decision was made to put together a memo aimed at the political parties.

## IT risks

IT risks are risks

- associated with the use, possession, operation, involvement, influence and adoption of IT solutions at ORES. It is a vital tool for the company;
- including the unauthorised distribution of information, errors, fraud, business interruption following an equipment or software fault, inefficient planning, as well as risks associated with individual IT operations.

In particular, the risk may manifest itself in a lack of modern tools and applications making it possible to fulfil the role of DSO, run the networks or process and provide information.

The challenges connected to the company's transformation represent risks associated with the modernisation and implementation of new IT platforms such as: data platform, customer platform, AMI Smart systems, EAM etc. The impact on current systems is significant both from a technological point of view, and in terms of activities.

In terms of day-to-day management, some risks are inherent in IT activities and must be covered by managing obsolescence and using security tools to prevent losses, data theft and service interruptions. Situations where there is heavy dependence on certain external suppliers to manage some of our operational activities are also something to think about.

The implementation and consolidation of the transformation plan are factors that significantly reduce the risks described above. A roadmap incorporating end-of-life application replacement has been drawn up, with a system for monitoring applications to anticipate obsolescence. Implementing the GDPR and NIS regulations also helps reduce the risks associated with IT security by introducing strategies for controlling and monitoring how data is handled and identify the systems that are critical for fulfilling our roles. The risk of dependence on suppliers with a monopoly position is reduced by prioritising tried and tested technologies and standards (adopt before adapt), insourcing applications and increasing the involvement of the IT department in specifications.

## Operational risks

Operational risks are those that might affect the company's ability to carry out activities rigorously and in accordance with defined targets, deadlines and budgets, as well as being able to bear comparison with other operators. These risks may come from systems or processes, or external events, staff errors in the broadest sense (whether intentional or not), such as:

- the risks associated with damage to the networks;
- technological risks;
- the risks of black-outs or shortages;
- climate risks;
- environmental risks;
- the risks of legal disputes;
- IT and telecom risks.

There may be different origins: human error, fraud, failings in IT systems, natural failure.

At an operational level, the risks of network disruption or paralysis are an integral part of the work of a network operator, along with securing sites, poles and cabins, data etc. These risks may potentially be aggravated by the ageing of the network.

Alongside this, the risk of ORES' logistics centre shutting down has also been identified.

Many measures are taken to reduce the risks of network disruptions and to manage their resolution more effectively if they do occur: lessons learned, preventive maintenance and new investments, network monitoring, PIU safeguarding plans, emergency power supplies, exercises and simulations, raising staff awareness etc. Master plans and key indicators are used to monitor the ageing of the network and the impact on its performance in terms of reliability. ORES regularly invests in its network, and works with suppliers to improve the reliability of the equipment that it purchases for them. Ultimately, an analysis needs to be carried out in order to identify whether investments need to be consolidated in response to ageing.

Awareness is also raised among ORES staff about security issues. Subcontractors are informed and monitored in relation to these issues. A collection of physical (passes, barriers, intrusion detection, patrolling security guards) and data (firewalls, data quality action plans, IT security measures, GDPR implementation and monitoring) protection measures have been introduced. As well as this, the quality of suppliers is monitored and acceptance criteria for equipment have been reinforced as required to overcome some failings that have been observed.

Lastly, the risks associated with the logistics centre are mitigated by measures to prevent fires, secure the electricity supply and provide preventive maintenance for the robotics tool.

# Appendices to the statement of comprehensive income

## Note 01 A – Turnover (in thousands of €)

| Electricity | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Transmission fee | 877,534 | 875,247 |
| Public service obligations (PSOs) | 17,144 | 18,243 |
| Transfer of assets from customers | 52,767 | 49,837 |
| Other | 1,079 | 1,059 |
| | **948,524** | **944,386** |
| **Gas** | **31/12/2018** | **31/12/2017** |
| Transmission fee | 204,589 | 206,400 |
| Public service obligations (PSOs) | 6,920 | 7,805 |
| Transfer of assets from customers | 5,411 | 6,172 |
| | **216,920** | **220,377** |
| **Not allocated** | **31/12/2018** | **31/12/2017** |
| Third-party inventory management | 5,853 | 6,322 |
| Construction contracts | 7,068 | 10,230 |
| Third-party network management | 3 | 908 |
| | **12,924** | **17,460** |
| **Total turnover** | **1,178,368** | **1,182,223** |
| **Benefit obligations fulfilled gradually** | **1,119,111** | **1,125,155** |
| **Benefit obligations fulfilled at a specific moment** | **59,257** | **57,068** |

## Transmission fee

The Group's turnover is mainly made up of income and expenses related to the transmission fees for the electricity and gas distribution network. The Group distributes electricity and gas to homes and businesses connected to the network on behalf of energy suppliers. As far as electricity is concerned, the transmission fee also includes the transport fee (reinvoicing the costs of using the transport network, of which Elia is the sole operator). Furthermore, this fee is invoiced by Elia to the Group and is recorded as a cost of sales (cascade principle), resulting, in principle in a neutral impact on the profit and loss statement - see also note 03.

The income and expenses related to transmission fees are recognised, depending on the tariffs in force for the year, as soon as the electricity or gas has been supplied and transported to consumers that are connected to the distribution network during the period in question. The total amounts are recognised gradually as income and they are based on the meter readings and estimates for use of the network where a reading has not been collected (billed in the form of a down payment). These estimates are corrected at the year-end with the unmetered transmission fee ("redevance de transit non relevée", RTNR) which is calculated on the basis of the total volumes that have been transmitted through the network.

The regulatory environment in which the Group operates is described in the accounting policies in point 3.A.15.

Decisions relating to extending the electricity and gas distribution tariffs in force as at 31 December 2017 until 31 December 2018 inclusive were adopted by the CWaPE on 1 December 2017. The CWaPE also decided that the tariffs for reinvoicing the costs of using the transport network in force as at 31 December 2017 will continue to apply until 28 February 2018 inclusive. In fact, on 15 January 2018, the distribution system operators submitted tariffs for reinvoicing the costs of using the transport network and surcharges for 2018 to the CWaPE. These new tariffs for reinvoicing the costs of using the transport network came into force on 1 March 2018.

As far as the transmission fees for electricity are concerned, following the increase to the quantities invoiced (+2.59% compared with 2017), they rose by €2.3 million, mainly due to the 4.7% rise in the transport fee (cascade principle mentioned above).

As far as the transmission fees for gas are concerned, they have gone down slightly (-0.88%) with fairly stable quantities (+0.78% compared with 2017), offset by the negative impact of the unmetered transmission fee. This is a consequence of the under-estimation of the down payments billed in 2017, which were prepared on the basis of consumption for the previous year, which depends directly on the climate during the year in question.

## Pubic service obligations (PSOs)

The Walloon Government imposes public service obligations (PSOs) on the DSOs which are clearly defined, transparent and non-discriminatory, the fulfilment of which is subject to checks by the regulators (mainly the CWaPE, but also the Creg for supplying protected clients). They mainly consist of:

- ensuring an electricity supply for protected clients, at the social tariff. The difference between the social tariff and the market price is partly recovered by the DSOs from the Creg (a fund managed by the latter), and partly via the tariffs depending on the type of protected client, which ensures that there is a neutral impact on the profit/loss;
- provisionally ensuring supply for end clients who are temporarily without a supply contract or whose contract has been suspended (so-called "supplier X" clients). The corresponding energy purchases are recognised under cost of sales (see note 03);
- ensuring the installation of a budget meter at the client's request or within the context of an end client failing to pay their energy supplier;

- ensuring a "one-stop-shop" facility to simplify administrative processes. The DSO is in fact the sole point of contact for electricity producers who have a photovoltaic solar panel system with a net power less than or equal to 10kVA who would like to connect to the network and benefit from the green certificate system;
- ensuring maintenance for public lighting belonging to the municipalities.

The associated costs are recorded under "other operating expenses" (see note 04) or "staff costs" (see note 20).

The income and expenses related to selling energy within the context of public service obligations (including in particular protected customers) are recognised gradually, as soon as the electricity or gas has been supplied and transported to consumers that are connected to the network during the period in question. The total amounts recognised as income are based on the meter readings and estimates for use of the network where a reading has not been collected.

Income connected to PSOs in 2018, both for gas and electricity, has gone down (-€2 million, all energy types combined) due to a reduction in the quantities sold, by 8.44% for electricity and 15.9% for gas (mainly for non-protected customers) see note 03).

## Transfer of assets from customers

Transfer of assets from customers within the context of building connections or extensions to the network are accounted for and recognised at a specific moment, usually as soon as the work is complete.

This figure has gone up in 2018 (+€2.1 million), connected to the increase in investments (see note 10). Changes to this item generally however come about due to a circumstantial factor, namely a change in the volume of work carried out.

## Third-party inventory management

The Group has entered into a service contract for stock management (logistics) on behalf of a third party, to which it also sells goods. This contract stipulates remuneration on the basis of the number of square metres used.

The slight fall in 2018 (-7.42%) is due to a smaller volume to manage in 2018.

## Construction contracts

The Group's turnover also includes income from construction contracts for various projects such as extending the public lighting system or network maintenance. Where the deadline for a construction contract can be estimated reliably, the income and expenses associated with this contract are accounted for in the profit and loss statement gradually, depending on the progress of the contract.

## Third-party network management

Following the partial demerger of the intermunicipal company "Intermosane", operation of the electricity network for the City of Liège has been, in the past, managed by the Group, but on behalf of RESA. The transfer to RESA of all aspects connected to managing the market and customers enjoying social protection from the City of Liège, initially planned for the end of 2016, was finally carried out in 2017. This transfer definitively completed the takeover by RESA of the work involved in operating the electricity network for the City of Liège and the associated legal responsibility. This explains the fact that no more income was generated for this activity in 2018.

## Note 01 B – Tariff balances (in thousands of €)

### Financial situation

| Tariff receivables | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Tariff period 2008-2018 | 117,211 | 117,483 |
| | **117,211** | **117,483** |
| **Tariff debts** | **31/12/2018** | **31/12/2017** |
| Tariff period 2008-2018 | (44,045) | (50,099) |
| | **(44,045)** | **(50,099)** |
| **Total tariff balances** | **73,166** | **67,384** |

### Statement of comprehensive

| Electricity | 31/12/2018 | 31/12/2017 |
|---|---|---|
| 2018 | 21,169 | 9,712 |
| 2018 down payment recovered | (9,019) | (9,254) |
| | **12,150** | **458** |
| **Gas** | **31/12/2018** | **31/12/2017** |
| 2018 | 5,748 | (3,730) |
| 2018 down payment recovered | (12,098) | (10,832) |
| | **(6,350)** | **(14,562)** |
| **Total tariff balances** | **5,800** | **(14,104)** |

Detailed information about the CWaPE's interim tariff methodology and the regulatory environment in which the Group operates is described in the accounting policies in point 3.A.15.

There are currently no specific IFRS standards covering the accounting of tariff balances in a regulated environment. Discussions are underway within the IASB to create a new standard for regulated assets and liabilities which will clarify the position that companies should take. With this in mind, an interim standard was published in January 2014 (IFRS 14 Regulatory Deferral Accounts), only applicable to the first-time IFRS adopters. This explicitly recognises the accounting of regulated assets and liabilities within the financial statements, but would like them to be clearly shown as separate from the other assets and liabilities.

The Group has assumed that these balances will be recovered in the future, which has been the case since 2015 in the form of a down payment (see below) and they are therefore recognised as an asset or a liability.

The tariff balances at the end of 2018 show a debit balance of €73.2 million (compared with €67.4 million in 2017), arising from differences recorded between the costs actually incurred during this regulatory period, and the original expenses budgeted for and approved by the regulator.

It is worth pointing out that in 2015 and 2016, a down payment of 10% of the combined tariff receivables and debts between 2008 and 2013 could be recovered via distribution tariffs, as decided by the CWaPE in its tariff methodology, adopted in 2014 (on this subject please refer to point 3.A.15 of the accounting policies). In its 2017 tariff methodology (approved on 15 December 2016 and extended for 2018 in its decision of 1 December 2017) the CWaPE also authorised that, for the 2017 and 2018 financial years, the down payment to be recovered should be increased to 20% of the total regulatory balances for the 2008-2014 period (again in the form of a down payment). This meant that a total of €19.8 million was recovered in 2018 (2017: €19.8 million), €9 million of which was for electricity and €10.8 million for gas. As well as this, following the CWaPE's decision, the recovery of the 2015 and 2016 balances was taken into account in 2018 for a total of €1.3 million for gas.

The regulator would like to settle the remaining combined tariff balances for 2008-2014 by 31 December 2022.

At the end of 2018, the regulatory balances (excluding down payments) were up by €26.9 million (+€21.2 million for electricity and €5.7 million for gas).

Both for electricity and gas, this is mainly due to the impact of volumes: the quantities distributed in 2018 were significantly higher than budgeted for, combined with the indexation of controllable costs and the change to the Atrias, Promogaz and Smart caps. We should also point out that the result relating to the transport fee, and more specifically the electricity transport tariff following a greater increase in expenses than income, also contributes to the rise in regulatory balances. These effects are in part offset by excess amounts recorded in terms of corporation tax and purchasing losses (down this year – see note 03).

## Note 02 – Other operating income (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Recovery of fraudulent consumption | 2,516 | 3,788 |
| Miscellaneous recovery from customers | 8,905 | 8,877 |
| Damage to installations | 4,968 | 3,119 |
| Leases/supplies | 3,738 | 3,575 |
| Other recovery of expenses | 8,427 | 18,801 |
| | **28,554** | **38,160** |

"Other recovery of expenses" mainly includes recovered amounts other than those connected to the customers of network operators such as for example:

- training costs invoiced to our subcontractors so that work permits can be granted on our networks;
- reinvoicing costs associated with projects carried out jointly with our counterparts in Brussels or Flanders;
- administrative management on behalf of other companies in the segment.

The significant reduction in these "other recovery of expenses" items is due to the fact that, in 2017, following on from the total transfer of the network operations activity for the City of Liège, RESA paid ORES compensation covering the proportion of the pension liabilities paid in advance by ORES to Electrabel when the company was created.

## Note 03 – Cost of sales (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Supplies and goods** | | |
| Energy purchases (PSO - gas and electricity) | 28,914 | 27,455 |
| Network losses (electricity) | 24,126 | 33,443 |
| Goods | 7,743 | 7,789 |
| | **60,783** | **68,687** |
| **Transport fees (electricity)** | **358,930** | **350,120** |
| **Road charges** | **45,278** | **43,168** |
| | **464,991** | **461,975** |

### Supplies and goods

This item is to a large extent made up of the purchase of network losses from the electricity sector. Indeed, following the decree of the Walloon Government dated 3 March 2011 (article 147), the DSO compensates for energy losses on its distribution network by purchasing suitable energy. These purchases are subject to public market rules (competitive tendering procedure – call for bids or tenders) They have gone down (-€9.3 million), due to the reduction in quantities purchased in 2018 (-3.7%) and the fall in the average price per MWH (-23.9%), thanks to negotiating down new contracts with energy suppliers who won the public contract.

As far as energy purchases are concerned, these relate, among other things, to protected customers within the context of PSOs. The rise (+5.3%) is to a large extent due to the reconciliation balances of consumption volumes billed in relation to the consumption volumes actually recorded.

The reconciliation of previous periods, carried out in 2018, meant that we recorded €1.5 million more in terms of expenses compared with 2017.

### Transport fees

The electricity transport network operator invoices the DSO every month for the fee for using its network. In turn the DSO reinvoices this fee to the energy suppliers (cascade principle). This only involves the electricity sector as the gas transport fee is invoiced directly by the gas transport network operator to the energy suppliers.

Despite a slight reduction in the volumes transported in 2018 (-2.14%), the transport fee invoiced by Elia has risen by 2.52%, a result of both the increase in the cost of the Elia tariff of 4.06% and the cost associated with surcharges and contributions of 5.38%.

### Road charges

The DSO is obliged to calculate the road charges associated with electricity (repaid in full to the municipalities) or gas (repaid to the municipalities, provinces and the Walloon Region) distribution annually. They are calculated on the basis of the quantities transported the previous year.

## Note 04 – Other operating expenses (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Network maintenance charges | 379 | 5,386 |
| Third party fees | 39,917 | 28,582 |
| IT consultancy (1) | 24,814 | 19,595 |
| Call centre expenses | 5,574 | 5,213 |
| Insurance | 1,794 | 1,860 |
| Vehicle leases | 2,326 | 2,577 |
| Building & fibre optic leases | 3,135 | 4,277 |
| Other leases & fees | 10,425 | 13,729 |
| Vehicle expenses | 6,267 | 6,010 |
| Supplies specific to the company | 7,714 | 7,223 |
| Other (2) | 44,458 | 32,163 |
| | **146,803** | **126,615** |

### Third party/IT consultancy fees

The increase in expenses for third party fees (€11.4 million) and IT consultancy (€5.2 million) is due to the consultancy fees not charged to investments and associated with various projects under way within the Group, such as the NEO project (replacing the current ERP), the Atrias project (establishing the new clearing house), the plan vectorisation project, the project to improve the management system, the GDPR project following on from the new European regulation etc.

We should also point out the expenses connected to taking over the municipalities previously affiliated with PBE, the operational management of which was carried out by Infrax until September 2018.

### Other

The significant increase in this item (+€12.3 million) is essentially due to the provisions recorded in 2018 (+€20.4 million), one of which was for the "Atrias" project for €14.6 million, and another to cover the dispute with a supplier (€4.8 million) (see also note 19 on provisions).

Added to this are the Qualiwatt subsidies (subsidies granted within the context of fitting photovoltaic panels), up €2.2 million in 2018 following the increase in applications submitted in 2018, an increase generated by the decision by the Walloon Government to stop granting premiums as of July 2018.

## Note 05 – Financial income (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Interest income | 551 | 268 |
| Other | 130 | 88 |
| | **681** | **356** |

In 2018, the increase in financial income (€0.3 million) can largely be explained by the late-payment interest received from customers (€0.2 million).

## Note 06 – Financial expenses (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Interest on traditional loans | 12,288 | 16,658 |
| Interest on commercial papers | 5,088 | 5,754 |
| Interest on bonds | 29,848 | 23,637 |
| Other interest charges (swaps & collars) | 7,287 | 12,223 |
| **Total interest charges** | **54,511** | **58,272** |
| | | |
| Effect of the accretion cost for provisions | 245 | (4,140) |
| Other financial expenses | 1,191 | 433 |
| **Total financial expenses** | **55,947** | **54,565** |

### Description of the hedging policy within the Group

A change in interest rates has an impact on the level of financial expenses In order to minimise this risk, the Group applies a financing policy that strives to achieve an optimum balance between fixed and variable interest rates. As well as this, hedging instruments are used to protect against uncertain changes. The financing policy takes into account different lifetimes of loans and assets. These three points (lifetimes of loans, interest rates and use of hedging derivatives) have been the subject of decisions made by the competent bodies of ORES Assets and ORES scrl which have helped define the financial policy needed for active debt management.

### Programme of commercial papers

In 2018, the Group issued several commercial papers with terms of between 3 and 12 months, representing a total of €92 million (€145 million in 2017) and paid back commercial papers worth €145 million.

## Bonds

In 2018, the Group decided to repay some of the bond issued in 2012 for a total of €350 million for €59.4 million. In return, it took out new traditional bank loans worth €180 million (€100 million of which was from the EIB) at better interest rates than those for the 2012 bond issue. This helped reduce the average rate of the Group's debt in the future.

This transaction meant that buy-back penalties had to be paid, increasing the financial expenses connected to bonds by €6.2 million.

## Traditional loans

The significant decrease in the financial expenses relating to bank loans (-€4.3 million) is the result of a general reduction in the debt ratio of the Group's debt following on from the revision of some loans since 2017: on the one hand, old loans with high interest rates have gradually been replaced with new loans benefiting from better terms, and on the other, the restructuring of existing bank loans has continued (see note 16 on borrowings).

## Derivative instruments (swaps, caps, collars – allocated to other interest charges)

Following on from the non-renewal of swaps, hedging variable rates, related to bank loans maturing (accounted for under other interest expenses - see also note 28 on derivative instruments), this item has gone down (-€4.9 million).

As well as this, since 2017, instead of hedging its variable loans with swaps, the Group instead took out caps on interest rates allocated to non-current assets and not described as hedging assets (see note 28 on this subject).

## Effect of the "unwinding of discounts on provisions"

This item in particular shows actuarial differences connected to the "unwinding of discounts" (as the liability is a discounted amount, it increases, all things being equal, over time) on provisions relating to jubilee and incapacity bonuses (these benefits are treated like other long-term benefits).

In 2018, unlike in 2017, we recorded a small expense (€0.2 million) following the rise in the discount rate from 1.18% to 1.34%.

## Other financial expenses

This item includes financial expenses other than those directly connected to our financial income. In 2018, they went up by €0.8 million following the indemnity paid to Gaselwest when the municipalities affiliated with PBE were taken over (€0.8 million).

## Note 07 - Segment information (in thousands of €)

### Financial information by operating segment according to Belgian accounting standards (in thousands of €)

Profit and loss statement

| 31/12/2018 | Segment | | | | |
|---|---|---|---|---|---|
| | Gas | Electricity | Other activities (1) | ORES (2) | Total consolidated (3) |
| **Belgian accounting standards** | | | | | |
| Turnover | 203,527 | 915,810 | | 602,996 | 1,722,333 |
| Other operating income | 4,886 | 16,472 | 330 | 19,624 | 41,312 |
| Operating expenses | (149,160) | (788,260) | (39) | (617,472) | (1,554,931) |
| **Operating profit/loss** | **59,253** | **144,022** | **291** | **5,148** | **208,714** |
| Financial income | 101 | 221 | 1 | 43,030 | 43,353 |
| Financial expenses | (21,902) | (40,037) | (1) | (42,817) | (104,757) |
| **Financial profit/loss** | **(21,801)** | **(39,816)** | **0** | **213** | **(61,404)** |
| Other | | | | | 0 |
| **Profit/loss before taxes** | **37,452** | **104,206** | **291** | **5,361** | **147,310** |
| Taxes | (8,600) | (38,172) | (86) | (5,361) | (52,219) |
| Allocations to the tax-free reserves | (137) | (610) | | | (747) |
| **Profit/loss for the period** | **28,715** | **65,424** | **205** | **0** | **94,344** |

| 31/12/2017 | Segment Gas | Segment Electricity | Other activities (1) | ORES (2) | Total consolidated (3) |
|---|---|---|---|---|---|
| **Belgian accounting standards** | | | | | |
| Turnover | 198,369 | 900,760 | | 570,655 | 1,669,784 |
| 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 profit/loss** | **63,082** | **149,674** | **615** | **5,534** | **218,905** |
| Financial income | 54 | 173 | 1 | 32,517 | 32,745 |
| Financial expenses | (20,866) | (39,420) | (0) | (32,517) | (92,803) |
| **Financial profit/loss** | **(20,812)** | **(39,247)** | **1** | **0** | **(60,058)** |
| Other | | | | | 0 |
| **Profit/loss before taxes** | **42,270** | **110,427** | **616** | **5,534** | **158,847** |
| Taxes | (10,541) | (46,766) | (209) | (5,534) | (63,050) |
| Allocations to the tax-free reserves | (137) | (607) | | | (744) |
| **Profit/loss for the period** | **31,592** | **63,054** | **407** | **0** | **95,053** |

Financial situation

| 31/12/2018 | Segment Gas | Segment Electricity | Other activities (1) | ORES (2) | Total consolidated (3) |
|---|---|---|---|---|---|
| **Belgian accounting standards** | | | | | |
| **Non-current assets** | **1,220,919** | **2,520,204** | **655** | **1,315,014** | **5,056,792** |
| Intangible & tangible fixed assets | 1,220,766 | 2,513,675 | 640 | 15,844 | 3,750,925 |
| Other non-current assets | 153 | 6,529 | 15 | 1,299,170 | 1,305,867 |
| **Current assets** | **80,533** | **293,529** | **(7,030)** | **306,480** | **673,512** |
| Inventories | | 8,409 | | 37,764 | 46,173 |
| Trade receivables & other receivables | 31,187 | 136,205 | (7,030) | 153,646 | 314,008 |
| Cash and cash equivalents | 1 | 9,629 | | 113,595 | 123,225 |
| Other current assets | 49,345 | 139,286 | | 1,475 | 190,106 |
| **TOTAL ASSETS** | **1,301,452** | **2,813,733** | **(6,375)** | **1,621,494** | **5,730,304** |
| | | | | | |
| **Equity** | **493,175** | **1,137,708** | **0** | **529** | **1,631,412** |
| Capital | 230,330 | 482,698 | | 458 | 713,486 |
| Other reserves | 262,845 | 655,010 | | | 917,855 |
| Capital subsidies | | | | 71 | 71 |
| **Non-current liabilities** | **680,391** | **1,355,779** | **0** | **1,303,272** | **3,339,442** |
| Borrowings | 665,915 | 1,328,761 | | 1,290,600 | 3,285,276 |
| Provisions | 14,476 | 27,018 | | 12,672 | 54,166 |
| **Current liabilities** | **127,886** | **320,246** | **(6,375)** | **317,693** | **759,450** |
| Borrowings | 45,937 | 93,850 | | 142,750 | 282,537 |
| Commercial debts | 11,349 | 114,290 | | 82,510 | 208,149 |
| Other current liabilities | 70,600 | 112,106 | (6,375) | 92,433 | 268,764 |
| **TOTAL LIABILITIES** | **1,301,452** | **2,813,733** | **(6,375)** | **1,621,494** | **5,730,304** |

| 31/12/2017 | Segment: Gas | Segment: Electricity | Segment: Other activities (1) | ORES (2) | Total consolidated (3) |
|---|---|---|---|---|---|
| **Belgian accounting standards** | | | | | |
| **Non-current assets** | **1,174,452** | **2,412,433** | **680** | **1,243,941** | **4,831,506** |
| Intangible & tangible fixed assets | 1,174,299 | 2,409,642 | 665 | 15,188 | 3,599,794 |
| Other non-current assets | 153 | 2,791 | 15 | 1,228,753 | 1,231,712 |
| **Current assets** | **96,847** | **311,208** | **(19,106)** | **280,383** | **669,332** |
| Inventories | | 11,564 | | 37,204 | 48,768 |
| Trade receivables & other receivables | 32,524 | 149,342 | (19,106) | 51,866 | 214,626 |
| Cash and cash equivalents | 1 | 9,874 | | 190,053 | 199,928 |
| Other current assets | 64,322 | 140,428 | | 1,260 | 206,010 |
| **TOTAL ASSETS** | **1,271,299** | **2,723,641** | **(18,426)** | **1,524,324** | **5,500,838** |
| | | | | | |
| **Equity** | **490,610** | **1,108,658** | **0** | **512** | **1,599,780** |
| Capital | 229,165 | 483,091 | | 458 | 712,714 |
| Other reserves | 261,445 | 625,567 | | | 887,012 |
| Capital subsidies | | | | 54 | 54 |
| **Non-current liabilities** | **687,118** | **1,348,924** | **0** | **1,229,224** | **3,265,266** |
| Borrowings | 677,723 | 1,332,987 | | 1,220,750 | 3,231,460 |
| Provisions | 9,395 | 15,937 | | 8,474 | 33,806 |
| **Current liabilities** | **93,571** | **266,059** | **(18,426)** | **294,588** | **635,792** |
| Borrowings | 26,281 | 68,451 | | 145,000 | 239,732 |
| Commercial debts | 13,265 | 108,972 | | 74,822 | 197,059 |
| Other current liabilities | 54,025 | 88,636 | (18,426) | 74,766 | 199,001 |
| **TOTAL LIABILITIES** | **1,271,299** | **2,723,641** | **(18,426)** | **1,524,324** | **5,500,838** |

(1) Various activities such as the supply of goods and services to third parties
(2) ORES scrl is a subsidiary 99.72% owned by ORES Assets
(3) Consolidated accounts for the Group without eliminating intra-group transactions

Reconciliation of segment information (prepared in accordance with Belgian accounting standards) and the Group's financial statements (prepared in accordance with IFRS standards – in thousands of €)

| 31/12/2018 | Segment information | The Group's financial statements | Changes |
|---|---|---|---|
| **Profit and loss statement** | | | |
| Turnover and tariff balances | 1,722,333 | 1,184,168 | (538,165) |
| Profit/loss before taxes | 147,310 | 242,795 | 95,485 |
| **Financial situation** | | | |
| Total assets | 5,730,304 | 4,617,575 | (1,112,729) |
| Total liabilities | 5,730,304 | 4,617,575 | (1,112,729) |

| 31/12/2017 | Segment information | The Group's financial statements | Changes |
|---|---|---|---|
| **Profit and loss statement** | | | |
| Turnover and tariff balances | 1,669,784 | 1,168,119 | (501,665) |
| Profit/loss before taxes | 158,847 | 266,023 | 107,176 |
| **Financial situation** | | | |
| Total assets | 5,500,838 | 4,513,584 | (987,255) |
| Total liabilities | 5,500,838 | 4,513,584 | (987,255) |

The ORES scrl Management Committee, supervised by the Boards of Directors of ORES scrl and ORES Assets, is the Group's main operational decision-maker. In its day-to-day management, it reviews the ORES Assets and ORES scrl accounts, which are prepared in accordance with Belgian accounting standards. Indeed, the Group is evolving in a regulated environment within which the financial statements of each of the Group's entities, drawn up in accordance with Belgian standards and for each type of energy (gas and electricity), have an impact on future tariffs. As a result, the Group is organised into seven operating segments, with a distinction within each of these between electricity and gas, alongside which are the activities associated with recovering unpaid debts from before the market was liberalised (so-called "supply" activity). As for ORES scrl, its role is to manage the expenses of ORES Assets; it reinvoices all of its expenses at cost price to the DSO and so does not generate any profits.

The operating segments provide exactly the same services in different geographical areas to similar kinds of customer. Each segment's activity is similar according to the type of energy, to the extent that the operating segments can be grouped into two main segments, namely gas and electricity on the one hand, and the associated (supply) segment on the other. These segments are representative of how the Group is managed, and correspond to the consolidation criteria developed in the IFRS 8 - Operating segments.

## Difference between the segment information and the consolidated financial statements of ORES Assets

- the transactions, balances, income and expenses between operating segments have been totally eliminated during the consolidation process;
- recognition of dividends (and associated withholding tax) when they are approved by the General Meeting;
- provisions for employee benefits:
  - recognition of provisions within the context of pension plans in place in the Group,
  - no deferral of pension costs taken over from third parties;
- transfer of assets from customers in the work to extend the network: recognised as income and not as a deduction from tangible fixed assets;
- intangible and tangible fixed assets:
  - depreciation of fixed assets as soon as they are put to use,
  - adjustment of staff costs included in the value of fixed assets;
- recognition of derivative financial instruments at their fair value;
- recognition of deferred taxes on each adjustment; recognition of an additional write-down on trade receivables.

Most of these differences are comprehensively detailed in the note about the Group's transition to the IFRS in the first aggregated financial statements at the end of December 2012.

## Information about geographical areas

The Group carries out its activities exclusively in Belgium, and more specifically in Wallonia. Each operating segment occupies a specific, exclusive geographical area.

## Information about the main clients

For the gas segment, two of our clients, energy suppliers, only represent 68% of the transmission fees invoiced in 2018 (69% in 2017).

For the electricity segment, two of our clients, energy suppliers, only represent 68% of the transmission fees invoiced in 2018 (70% in 2017).

# Appendices to the financial situation

## Note 08 – Premium (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Acquisition cost | 8,955 | 8,955 |
| Accumulated impairments | | |
| | **8,955** | **8,955** |

The premium is linked to the acquisition in 2009 of ORES scrl by the eight mixed Walloon DSOs (merged on 31 December 2013 to create a single DSO, ORES Assets). The company ORES scrl provides services to the DSO and is, among other things, the employer of all the staff working for the Group, made up of ORES Assets and its subsidiary ORES scrl. The premium recorded when the company was acquired relates to know-how.

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

At the time of the impairment test, the recoverable value of the CGU is determined by the calculation of its value in use. This calculation uses cash flow projections based on the budgets approved by the management. These budgets correspond to those approved by the regulator when tariffs are set.

The cash flows beyond the period covered by the budget are extrapolated using a zero growth rate.

The discount rate used to determine the value in use is the rate of return (WACC) defined by the tariff methodology (see note 3.A.15 for the description of the regulatory context).

On the basis of these hypotheses, the value in use determined by the model corresponds approximately to the net assets according to Belgian accounting standards (RAB). Given that the net assets determined according to IFRS standards are systematically lower than the net assets determined according to Belgian accounting standards (including in particular due to the recognition of pension provisions), the value in use is generally higher than the book value (IFRS) of each CGU, and as a result, no asset impairments need to be recorded.

## Note 09 – Intangible fixed assets (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Acquisition cost | 140,297 | 100,623 |
| Accumulated impairments and amortisation | (41,055) | (30,896) |
| | **99,242** | **69,727** |

| Cost | | Software | Development | Total |
|---|---|---|---|---|
| **Opening balance** | **2017** | **46,300** | **19,013** | **65,313** |
| Acquisitions | | 31,114 | | 31,114 |
| Internal developments | | | 4,957 | 4,957 |
| Transfers/decommissioning | | (761) | | (761) |
| **Opening balance** | **2018** | **76,653** | **23,970** | **100,623** |
| Acquisitions | | 33,541 | | 33,541 |
| Internal developments | | | 7,511 | 7,511 |
| Transfers/decommissioning | | (1,378) | | (1,378) |
| **Closing balance** | **2018** | **108,816** | **31,481** | **140,297** |

| Accumulated impairments and amortisation | | Software | Development | Total |
|---|---|---|---|---|
| **Opening balance** | **2017** | **(15,259)** | **(6,587)** | **(21,846)** |
| Amortisation costs | | (5,702) | (4,109) | (9,811) |
| Transfers/decommissioning | | 761 | | 761 |
| **Opening balance** | **2018** | **(20,200)** | **(10,696)** | **(30,896)** |
| Amortisation costs | | (6,597) | (4,940) | (11,537) |
| Transfers/decommissioning | | 1,378 | | 1,378 |
| **Closing balance** | **2018** | **(25,419)** | **(15,636)** | **(41,055)** |
| | | **83,397** | **15,845** | **99,242** |

| Total amounts committed to purchasing intangible fixed assets | 31/12/2018 | 31/12/2017 |
|---|---|---|
| IT projects | 3,358 | 8,320 |
| | **3,358** | **8,320** |

### Description of the main intangible fixed assets and the main changes during the year

The intangible assets acquired or developed in 2018 mainly include the development of the new Atrias platform as well as the Smart Grid and Smart Metering projects.

Indeed, the development of techniques relating to running the networks and "smart metering", as well as other developments show that significant development costs are generated and that it is highly probable that they will be spread over longer periods of time than in the past. In this context, since 2012, the Group has chosen to capitalise certain costs connected to development activities.

Intangible assets are amortised over a lifespan of 5 years on a prorata temporis basis using the linear method.

## Note 10 – Tangible fixed assets (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Acquisition cost | 6,578,399 | 6,268,691 |
| Accumulated impairments and depreciation | (2,586,353) | (2,448,821) |
| | **3,992,046** | **3,819,870** |
| Land and buildings | 111,324 | 93,422 |
| Distribution network | 3,841,899 | 3,691,473 |
| Equipment | 38,182 | 34,309 |
| Other | 641 | 666 |
| | **3,992,046** | **3,819,870** |

| Acquisition cost | | Land and buildings | Distribution network | Equipment | Other | Total |
|---|---|---|---|---|---|---|
| **Opening balance** | **2017** | **128,446** | **5,779,027** | **143,995** | **2,453** | **6,053,921** |
| Acquisitions | | 6,970 | 244,435 | 9,269 | | 260,674 |
| Transfers/decommissioning | | (3,002) | (40,383) | (2,519) | | (45,904) |
| **Opening balance** | **2018** | **132,414** | **5,983,079** | **150,745** | **2,453** | **6,268,691** |
| Acquisitions | | 19,450 | 265,178 | 10,874 | | 295,502 |
| Takeover of the PBE network | | 1,265 | 47,144 | 38 | | 48,447 |
| Transfers/decommissioning | | (42) | (32,655) | (1,544) | | (34,241) |
| **Closing balance** | **2018** | **153,087** | **6,262,746** | **160,113** | **2,453** | **6,578,399** |

| Accumulated impairments and amortisation | | Land and buildings | Distribution network | Equipment | Other | Total |
|---|---|---|---|---|---|---|
| **Opening balance** | **2017** | **(38,062)** | **(2,193,147)** | **(112,522)** | **(1,762)** | **(2,345,493)** |
| Impairment expenses | | (2,170) | (138,885) | (6,377) | (25) | (147,457) |
| Transfers/decommissioning | | 1,240 | 40,426 | 2,463 | | 44,129 |
| **Opening balance** | **2018** | **(38,992)** | **(2,291,606)** | **(116,436)** | **(1,787)** | **(2,448,821)** |
| Impairment expenses | | (2,269) | (143,390) | (7,022) | (25) | (152,706) |
| Takeover of the PBE network | | (517) | (18,349) | (10) | | (18,876) |
| Transfers/decommissioning | | 15 | 32,498 | 1,537 | | 34,050 |
| **Closing balance** | **2018** | **(41,763)** | **(2,420,847)** | **(121,931)** | **(1,812)** | **(2,586,353)** |
| **Accounted for at historic cost** | | **111,324** | **3,841,899** | **38,182** | **641** | **3,992,046** |
| **Accounted for at revalued cost** | | | | | | |

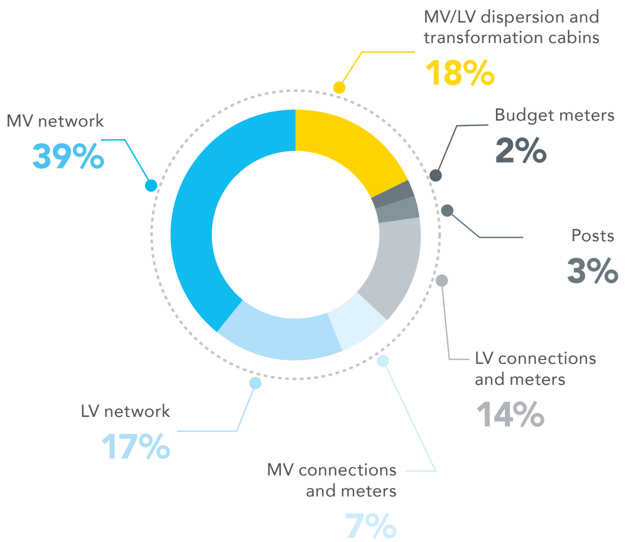
## Description of the main tangible fixed assets and the main changes during the year

Investments for this year as well as for 2017 are mainly connected to our gas and electricity distribution network for a total of €265 million out of total investments of €296 million (€261 million in 2017). They are made up of:

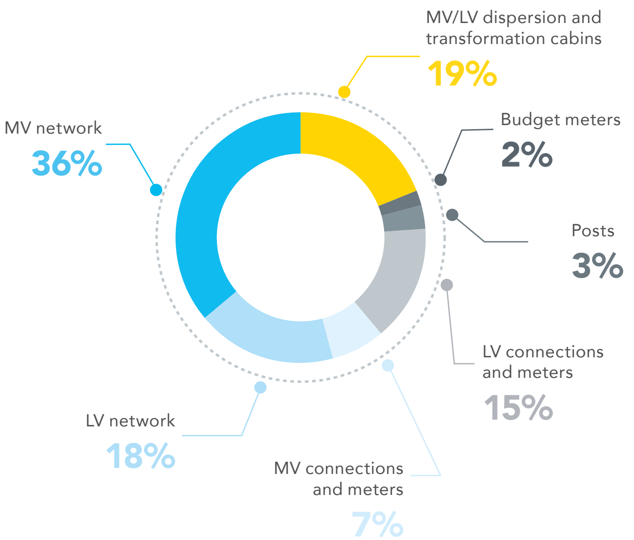
- For electricity: equipment replacements (56%) and network extension work and installation of new cabins (44%) for a total of €179 million (€177 million in 2017)
- For gas: work involved in cleaning up the network (49%) and extending the existing network (51%) for a total of €86 million (€67 million in 2017)

### Electricity

Year 2018

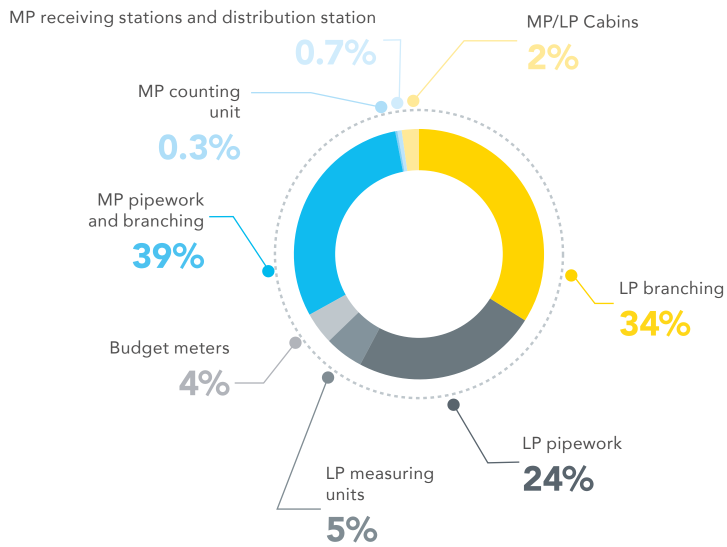



Year 2017

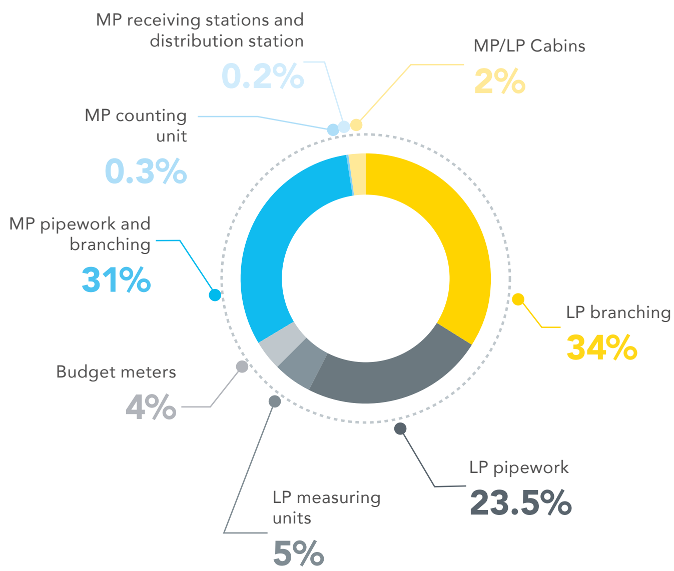



### Gas

Year 2018




Year 2017



### Total amounts committed to purchasing tangible fixed assets (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Electricity distribution network | 46,603 | 42,776 |
| Gas distribution network | 12,429 | 12,421 |
| Buildings & equipment | 21,899 | 11,034 |
| Vehicles | 742 | 355 |
| | **81,673** | **66,586** |

## Note 11 – Financial assets (in thousands of €)

| | Non-current | | Current | |
|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| **Financial assets recorded at their fair value through the profit and loss statement** | | | | |
| Listed equity instruments – Sicavs and stock options | 628 | 841 | | |
| Listed equity instruments – Sicavs and stock options | | | 7,697 | 7,354 |
| Derivative financial instruments | 6,887 | 1,518 | | |
| | **7,515** | **2,359** | **7,697** | **7,354** |
| **Financial assets and other receivables** | | | | |
| Trade receivables | | | 135,915 | 184,138 |
| Other receivables | 14,151 | 9,634 | 51,326 | 53,298 |
| | **14,151** | **9,634** | **187,241** | **237,436** |
| | **21,666** | **11,993** | **194,938** | **244,790** |

For information about derivative financial instruments and changes to them in 2018, please refer to note 28.

Following the application of the IFRS 9 standard and its entry into force on 1 January 2018, the total value of unlisted equity instruments has been reclassified, from financial assets available to sell to financial assets recorded at their fair value through the profit and loss statement for a total of €0.6 million. The change in fair value between the two years is the result of a loss recorded in our shareholding in the company N-Allo in order to better reflect its economic value.

### Fair value

The fair value of commercial and other receivables is assumed to be the same as their book value.

## Note 12 – Trade receivables, other receivables and current tax assets (in thousands of €)

| | Non-current | | Current | |
|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| **Trade receivables** | | | | |
| Distribution | | | 107,940 | 148,057 |
| Contract assets (Distribution) | | | 11,273 | |
| | | | **119,213** | **148,057** |
| Public service obligations (PSOs) | | | 56,127 | 49,056 |
| **Contract liabilities (PSOs)** | | | (10,378) | |
| | | | **45,749** | **49,056** |
| Construction contract liabilities | | | (8,061) | |
| Other | | | 30,966 | 27,502 |
| Write-downs on trade receivables | | | (51,953) | (40,477) |
| | **0** | **0** | **135,914** | **184,138** |
| **Other receivables** | | | | |
| Interim dividend | | | 44,465 | 47,241 |
| VAT | | | 3,743 | 1,090 |
| Public service obligations (PSOs) | 6,045 | 2,299 | | |
| Other | 8,106 | 7,335 | 4,699 | 6,693 |
| Write-downs on other receivables | | | (1,581) | (1,726) |
| | **14,151** | **9,634** | **51,326** | **53,298** |
| **Current tax assets** | | | **6,634** | **78** |
| | **0** | **0** | **6,634** | **78** |
| | **14,151** | **9,634** | **193,874** | **237,514** |

The level of trade receivables fell at the end of 2018 (-€48.2 million), a change mainly observed in relation to receivables linked to distribution (-€28.8 million) but also due to the increased level of write-downs this year following the entry into force of the IFRS 9 standard, and the application of the method based on expected losses for their lifetime (€11.5 million - see explanation below). For a detailed explanation of how this method is applied, please refer to point A.15.2 of the accounting policies.

In terms of distribution, the €28.8 million decrease is mainly due to the RTNR, which was lower in 2018 than 2017 due to an overestimate of the down payments invoiced in 2017 and 2018, these being based on consumption for the previous year; consumption was heavily influenced by the climate during the year in question (2018 was a hotter year than 2017, which was in turn hotter than 2016).

We would also like to point out that, from 2018 and following the entry into effect of the IFRS 15 standard, another distinction is made within receivables relating to distribution to identify contract assets relating to distribution (€11.3 million). These include the fees for using public roads and the RTNR. These were not subject to depreciation at the end of 2018.

In the same way, the "contract liabilities (PSOs)" and "construction contract liabilities" items appear; these relate respectively to the down payments received within the context of budget meters (PSOs) and the down payments received to carry out work connected to municipal lighting predominantly. These were not subject to depreciation at the end of 2018.

The fact that current tax assets rose sharply at the end of 2018 (€6.6 million) is largely due to the greater level of early payments in 2018 compared with 2017, higher payments than the tax charges ultimately calculated at the end of the year on 2018 income. These will be recovered during 2019.

| Financial assets and other receivables that are not depreciated | Trade receivables | | Other receivables & tax assets | |
|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Not yet due | 108,087 | 145,917 | 69,455 | 60,394 |
| Up to 90 days | | | | 914 |
| Between 91 and 180 days | | | | 361 |
| Between 181 and 270 days | | 6,226 | | 458 |
| Between 271 and 360 days | | 1,873 | | 211 |
| Between 361 and 720 days | | 613 | | 705 |
| More than 720 days | | 2,421 | | 47 |
| | **108,087** | **157,050** | **69,455** | **63,090** |

| Changes to the provisions connected to write-downs | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
|---|---|---|---|---|
| As at 1 January | 40,477 | 34,859 | 1,726 | 2,008 |
| Impairment write-downs | 13,225 | 6,501 | 616 | 478 |
| Reversal connected to the ex-PBE municipalities | 57 | | 2 | |
| Reversal of write-downs | (1,806) | (883) | (763) | (760) |
| **Closing balance** | **51,953** | **40,477** | **1,581** | **1,726** |

| Provisions for write-downs | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Financial situation | (53,533) | (42,203) |
| Statement of comprehensive income | (19,472) | (10,495) |

| Write-downs | Trade receivables | | |
|---|---|---|---|
| | Balance 31/12/2018 | Average rate of expected credit losses | Expected losses |
| Up to 90 days | 12,139 | 24% | 2,858 |
| Between 91 and 180 days | 4,384 | 39% | 1,723 |
| Between 181 and 270 days | 4,553 | 47% | 2,139 |
| Between 271 and 360 days | 4,571 | 47% | 2,146 |
| Between 361 and 720 days | 14,884 | 57% | 8,462 |
| More than 720 days | 43,487 | 83% | 36,206 |
| | **84,018** | | **53,534** |

As of 2018 and following the introduction of the IFRS 9 standard, the method for calculating write-downs to record on receivables, so the expected loss over the lifespan of financial assets, has changed, resulting in an increase of €11.5 million in write-downs. This method, which involves applying an historic loss rate, calculated on the basis of the statistics for previous years, on open receivables as of the first day on which the invoice is issued, in order to obtain the expected loss, is explained in point A.15.2 of the accounting policies.

The majority of our write-downs relate to the protected customers of ORES Assets and the temporary supply to end clients (51% in 2018 compared with 50% in 2017) who are provisionally without a supply contract or whose contract has been suspended (so-called “supplier X” clients). The other significant element of the write-downs comes from receivables relating to fraud on our networks, which represent 24% in 2018 compared with 21% in 2017.

## Note 13 – Inventories (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Raw materials and supplies | 38,188 | 37,204 |
| **Total, gross** | **38,188** | **37,204** |
| Write-downs | (424) | |
| Reversal of write-downs | | |
| | **37,764** | **37,204** |
| | | |
| Inventories recorded as expenses during the year (cost of sales) | 7,743 | 7,789 |

Inventories are located throughout Wallonia, most of them being concentrated in the supply warehouse in Aye.

Despite a write-down of €0.4 million recorded in 2018 on obsolete equipment, the value of inventories rose slightly in 2018 (€0.6 million).

## Note 14 – Cash and cash equivalents (in thousands of €)

| Cash and cash equivalents for the cash flow statement | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Cash | 45,447 | 54,912 |
| Fixed term deposit accounts | 70,350 | 138,000 |
| | **115,797** | **192,912** |

The Group's cash position went down in 2018 (-€77.1 million) compared with 2017 following the use of the cash surplus from the end of 2017 generated by taking out new loans.

In fact, unlike 2017 when the Group borrowed €557.8 million, this year, only loans worth €274.8 million were taken out, €100 million of which were from the European Investment Bank (see note 16 on this subject).

Term deposits represent a total of €70.3 million in 2018, and were arranged in accordance with the decisions of the Board of Directors relating to implementing a prudent policy in this area.

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

## Note 15 – Capital

| Number of shares | | ORES Assets | | |
|---|---|---|---|---|
| | | A shares | R shares | TOTAL |
| **Opening balance** | **2017** | **48,271,173** | **3,569,879** | **51,841,052** |
| Capital increase | | 810,372 | | 810,372 |
| Capital repayment | | | (988,040) | (988,040) |
| Conversion of R shares to A shares | | 67,279 | (67,279) | 0 |
| **Opening balance** | **2018** | **49,148,824** | **2,514,560** | **51,663,384** |
| Capital increase | | 617,967 | 15,000 | 632,967 |
| Capital repayment | | | (86,729) | (86,729) |
| Conversion of R shares to A shares | | 112,521 | (112,521) | 0 |
| Takeover of ex-PBE municipalities | | 658,597 | 0 | 658,597 |
| **Closing balance** | **2018** | **50,537,909** | **2,330,310** | **52,868,219** |

| Subscribed capital (in thousands of €) | | ORES Assets | | |
|---|---|---|---|---|
| | | A shares | R shares | TOTAL |
| **Opening balance** | **2017** | **438,991** | **356,988** | **795,979** |
| Capital increase | | 15,082 | | 15,082 |
| Capital repayment | | | (98,804) | (98,804) |
| Conversion of R shares to A shares | | 6,728 | (6,728) | 0 |
| **Opening balance** | **2018** | **460,801** | **251,456** | **712,257** |
| Capital increase | | 6,901 | 1,500 | 8,401 |
| Capital repayment | | | (8,673) | (8,673) |
| Conversion of R shares to A shares | | 11,252 | (11,252) | 0 |
| Takeover of ex-PBE municipalities | | 1,043 | 0 | 1,043 |
| **Closing balance** | **2018** | **479,997** | **233,031** | **713,028** |

| Dividend per share (in thousands of €) | | ORES Assets | | |
|---|---|---|---|---|
| | | A shares | R shares | TOTAL |
| Dividends approved by the General Meeting | 2017 | 73,399 | 10,848 | 84,247 |
| Dividend per share | | 1.52 | 3.04 | 1.63 |
| Dividends approved by the General Meeting | 2018 | 97,860 | 7,687 | 105,547 |
| Dividend per share | | 1.99 | 3.06 | 2.04 |

Dividends for the period approved by the shareholders' meeting are paid in two parts by the Group: an interim dividend is distributed first during the year before the dividend is approved by the General Meeting, and the balance is then paid during the year in which the dividend is approved by the General Meeting.

As a result, the dividend total shown in the consolidated cash flow statement is made up of:

| | 2018 | 2017 |
|---|---|---|
| Total balance of dividends from year N-1 paid by the Group in year N = (including associated withholding tax) | 33,946 | 41,634 |
| Total interim dividends from year N paid by the Group in year N = (after deduction of withholding tax) | 44,465 | 47,241 |
| Total amount taken from available reserves approved by the General Meeting in June 2018 and November 2018 | 3,997 | 24,360 |
| | **82,408** | **113,235** |

We should point out that during the General Meetings of Shareholders in June and November 2018, the decision was made to approve the withdrawal of a total of €4 million from the available reserves belonging to the municipalities affiliated with the PBE. The second part of this withdrawal was paid to the shareholders in question at the end of the year.

## Additional information

As a cooperative company, the capital of ORES Assets is made up of a fixed and a variable part. The fixed part cannot be less than €18,550 and is represented in full by A shares. A shares come with voting rights and the right to dividends, while R shares, with a nominal value of €100, only entitle their owners to dividends, and not the associated right to vote. The dividend connected to R shares is a priority dividend and is recoverable. The rights and obligations attached to A shares and R shares are governed by the Code des sociétés (Belgian company law), by the provisions of the Local Democracy and Decentralisation Code ("Code de la Démocratie locale et de la Décentralisation") as well as by the DSO's articles of association.

| | BALANCE AS | |
|---|---|---|
| | 31/12/2018 | 31/12/2017 |
| Fixed A shares | 149 | 149 |
| Variable A shares | 479,848 | 460,652 |
| R shares | 233,031 | 251,456 |
| | **713,028** | **712,257** |

## Equity transactions in 2018

Subscribed capital rose by €0.7 million, following the €18.2 million recapitalisation needed to finance investments for the financial year – part of which (€11.3 million) was financed by converting R shares into A shares –, the takeover of 4 Walloon municipalities affiliated with PBE for €1 million; the subscription of R shares for a total of €1.5 million, and lastly, the redemption of R shares for €8.7 million (on this subject, please refer to the consolidated statement of changes in equity). This redemption fits in with the policy of optimising equity and the new dividend policy applicable as of 1 January 2019. Shareholders who did not want to convert their R shares to A shares on this date could ask for their R shares to be redeemed. These redemptions were carried out at the end of the year.

## Note 16 – Borrowings (in thousands of €)

| | Book value | | Fair value | | |
|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | Hierarchical level |
| **Unsecured - Not current** | | | | | |
| Bank loans | 1,336,783 | 1,245,448 | 1,352,812 | 1,239,662 | Level 2 |
| Commercial papers – private investments | 80,000 | 130,750 | 85,117 | 144,187 | Level 2 |
| Bonds | 567,946 | 626,758 | 726,791 | 799,506 | Level 2 |
| Other | 7,114 | 4,486 | 6,736 | 4,166 | Level 2 |
| | **1,991,843** | **2,007,442** | **2,171,456** | **2,187,521** | |
| **Unsecured - Current** | | | | | |
| Bank loans | 89,037 | 94,734 | 89,037 | 94,734 | Level 2 |
| Short-term commercial papers | 91,997 | 144,975 | 91,997 | 144,975 | Level 2 |
| Commercial papers – private investments | 54,013 | 3,212 | 54,013 | 3,212 | Level 2 |
| Bonds | 9,904 | 10,182 | 9,904 | 10,182 | Level 2 |
| Other | 371 | 410 | 371 | 410 | Level 2 |
| | **245,322** | **253,513** | **245,322** | **253,513** | |
| **Total financial debts** | **2,237,165** | **2,260,955** | **2,416,778** | **2,441,034** | |
| Of which: current | 245,322 | 253,513 | 245,322 | 253,513 | |
| Of which: not current | 1,991,843 | 2,007,442 | 2,171,456 | 2,187,521 | |

The reduction in financial debts in 2018 (-€23.8 million) can be explained by the partial buy back of the "Degroof" bond, initially for €350 million (-€59.4 million); the reduction in short-term financing by commercial papers (-€53 million); and the repayment of bank loans for €94.4 million, partially offset by new loans taken out in 2018 (€180 million), €80 million of which were at a fixed rate from traditional banking institutions, and €100 million of which was from the EIB, also at a fixed rate.

In fact, after the Group secured a new credit facility worth €550 million from the EIB, from which an initial total of €150 million was drawn in 2017, another €100 million was drawn at the end of 2018. This financing will cover almost 50% of our investment costs connected to transforming and modernising the networks over the next five years.

A process initiated in 2016, in 2018 the Group continued to restructure its debts by reviewing certain loans at variable rates, switching them to hedged variable rates or by hedging, by purchasing caps (recorded under financial assets), loans on variable rates that are not yet hedged, or only partially hedged. All of these changes are detailed in the table below showing the repayments by type of rate.

Lastly, we should point out that the Group also paid back short-term commercial papers worth €145 million, which matured in 2018, and subscribed to new short-term commercial papers worth a total of €92 million with terms ranging from 3 to 12 months, with a view to covering some of its operating needs for the 1st half of 2019.

## Programme of commercial papers (private investments)

The outstanding amount was €189.7 million as at 31 December 2016 and the first commercial papers issued in 2012, which matured in 2017, were paid back for a total of €59 million. The next repayment is due in 2019, which is why €50.8 million has been reclassified as short term (see table below).

## Glossary of terms used to distinguish between loans

**Adjustable fixed rate**: a loan where the rate is fixed for a certain period longer than a year and within the debt repayment term. At the end of this period, the rate is reviewed according to market changes.

**Hedged variable rate**: Hedged variable rate: a loan where the rate is variable and hedged by a hedging product, such as a swap, collar or cap.

**Structured hedged variable rate (still used at the end of 2016)**: two products are included in this category:

- **Structured products with barrier**: loans where the rate is fixed below the standard rates, as long as the reference rate (short-term Euribor rate) does not exceed a predetermined rate (the barrier).
- **Structured products with slope**: products where the rate depends on a range between short-term and long-term rates. The loan rate is low as long as the difference between the long-term fixed rate and the short-term fixed rate stays below a threshold and increases significantly if it exceeds that threshold.

## Description of the methods used to determine the fair value of loans

**Fixed-rate financing**: on the closing date, the sum of the future discounted cash flows including capital and interest calculated on the basis of the market rate on the closing date (including the bonds among others).

**Adjustable fixed-rate financing**: on the closing date, the sum of the future discounted cash flows including capital and interest calculated on the basis of the market rate on the closing date.

**Variable-rate financing**: the fair value is presumed to be equal to the book value on the closing date.

**Short-term commercial paper**: the fair value is equal to the book value on the closing date.

Repayments are scheduled as follows (by term and type of interest rate in thousands of €)

| 31/12/2018 | Fixed rate | Adjustable fixed rate | Variable rate | Hedged variable rate | TOTAL |
|---|---|---|---|---|---|
| Within the year | 178,196 | 264 | 2,528 | 64,334 | 245,322 |
| >1 and <3 years | 448,649 | 527 | 9,948 | 190,980 | 650,104 |
| >3 and <5 years | 176,171 | 528 | 4,840 | 227,510 | 409,049 |
| >5 and <15 years | 280,669 | 264 | 3,437 | 296,150 | 580,520 |
| >15 years | 352,170 | | | | 352,170 |
| | **1,435,855** | **1,583** | **20,753** | **778,974** | **2,237,165** |

| 31/12/2017 | Fixed rate | Adjustable fixed rate | Variable rate | Hedged variable rate | TOTAL |
|---|---|---|---|---|---|
| Within the year | 183,431 | 3,537 | 5,938 | 60,607 | 253,513 |
| >1 and <3 years | 203,461 | 7,074 | 16,571 | 187,065 | 414,171 |
| >3 and <5 years | 429,762 | 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** | **21,669** | **50,872** | **815,083** | **2,260,955** |

## Repayments are scheduled as follows (by term and kind in thousands of €)

| 31/12/2018 | Short-term commercial papers | Bank loans | Private investments | Obligations | Bonds | Total |
|---|---|---|---|---|---|---|
| Within the year | 91,997 | 89,037 | 54,013 | 9,904 | 371 | 245,322 |
| >1 and <3 years | | 279,851 | 80,000 | 289,110 | 1,143 | 650,104 |
| >3 and <5 years | | 407,907 | | | 1,142 | 409,049 |
| >5 and <15 years | | 575,691 | | | 4,829 | 580,520 |
| >15 years | | 73,334 | | 278,836 | | 352,170 |
| | **91,997** | **1,425,820** | **134,013** | **577,850** | **7,485** | **2,237,165** |

| 31/12/2017 | Short-term commercial papers | Bank loans | Private investments | Obligations | Bonds | Total |
|---|---|---|---|---|---|---|
| Within the 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** |

All borrowings are shown in Euros.

## Unused credit lines

One of two lines of credit worth €50 million available within the ORES group at the end of 2017 was removed and the other renewed until the end of May 2019.

## Summary of main borrowings (including interest rates – in thousands of €)

| | Book value 31/12/2018 | Book value 31/12/2017 | Initial amount | Maturity date | Fixed / variable rate | Interest rate at the end of 2018 | Linked derivative instrument | Hedging instrument | Swap/cap - Notional Residual | Swap/cap - Fair value | Maturity date – Swap/cap | Interest rate at the end of 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Borrowing 1 - MP 2008 | 50,960 | 56,056 | 118,030 | 2029 | Variable | 0.43% | CAP 1% | no | 33,731 | (76) | 31/05/2023 | 0.43% |
| | | | | | | | CAP 0.9% | no | 17,229 | (411) | 29/12/2028 | 0.43% |
| Borrowing 2 - KP 2008 | 23,506 | 34,013 | 134,830 | 2029 | Variable | 0.49% | CAP 1% | no | 13,745 | (45) | 31/12/2024 | 0.49% |
| | | | | | | | CAP 0.8% | no | 9,761 | (82) | 31/12/2028 | 0.49% |
| Borrowing 3 - FP50 2008 | 235,728 | 278,029 | 505,807 | 2030 | Variable | Between 0.48% and 0.49% | SWAP | yes | 64,771 | 2,329 | 31/12/2019 | Fixed at 3.56% |
| | | | | | | | CAP | no | 170,957 | (1,858) | 30/04/2023 | Between 0,48% and 0.49% |
| Borrowing 4 - MP FP 2010 | 71,900 | 71,900 | 71,900 | 2020 | Variable | 0.28% | SWAP | yes | 25,000 | 1,339 | 31/12/2020 | Fixed at 2.33% |
| Borrowing 6 - Sedilec 1 | 12,500 | 15,000 | 50,000 | 2024 | Fixed | 0.18% | | | | | | |
| Borrowing 7 - Sedilec 2 | 25,060 | 28,640 | 71,600 | 2026 | Fixed | 1.06% | | | | | | |
| Borrowing 8 - Sedilec 4 | 12,002 | 13,335 | 26,670 | 2029 | Fixed | 0.55% | | | | | | |
| Borrowing 9 - MP ORES 2016 - Lot 1 | 40,000 | 40,000 | 40,000 | 2023 | Variable | 0.35% | SWAP | yes | 40,000 | 602 | 29/12/2023 | Fixed at 0.42% |
| Borrowing 10 - MP ORES 2016 - Lot 2 | 50,000 | 50,000 | 50,000 | 2024 | Variable | 0.37% | SWAP | yes | 50,000 | 637 | 30/12/2024 | Fixed at 0.54% |
| Borrowing 11 - MP ORES 2016 - Lot 3 | 30,000 | 30,000 | 30,000 | 2025 | Variable | 0.40% | SWAP | yes | 30,000 | 563 | 31/12/2025 | Fixed at 0.66% |
| Borrowing 12 - MP ORES 2016 - Lot 4 | 30,000 | 30,000 | 30,000 | 2025 | Variable | 0.31% | CAP 1% | no | 27,546 | (44) | 30/06/2022 | 0.31% |
| | | | | | | | CAP 0.9% | no | 2,454 | (55) | 31/12/2025 | 0.31% |
| Borrowing 13 - MP ORES 2017 - Lot 1 | 35,000 | 35,000 | 35,000 | 2020 | Fixed | 0.18% | | | | | | |
| Borrowing 14 - MP ORES 2017 - Lot 2 | 45,000 | 45,000 | 45,000 | 2022 | Fixed | 0.51% | | | | | | |
| Borrowing 15 - MP ORES 2017 - Lot 3 | 40,000 | 40,000 | 40,000 | 2026 | Fixed | 1.05% | | | | | | |
| Borrowing 16 - MP ORES 2017 - Lot 4 | 40,000 | 40,000 | 40,000 | 2027 | Fixed | 1.17% | | | | | | |
| Bond issued in 2012 | 290,600 | 351,420 | 350,000 | 2021 | Fixed | 4.00% | | | | | | |
| Bond issued in 2014 | 80,000 | 80,782 | 80,000 | 2044 | Fixed | 4.00% | | | | | | |
| Bond issued in 2015 | 100,000 | 102,470 | 100,000 | 2045 | Fixed | 3.00% | | | | | | |
| Bond issued in 2015 | 100,000 | 102,269 | 100,000 | 2045 | Fixed | 2.85% | | | | | | |
| Programme of commercial papers – private investments | 130,750 | 133,962 | 130,750 | Between 2017 and 2020 | Fixed | Between 3.43% and 4.04% | | | | | | |
| Loan from the EIB 150 | 150,000 | 150,000 | 150,000 | 2036 | Fixed | 1.12% | | | | | | |
| Loan from the EIB 100 | 100,000 | 0 | 100,000 | 2048 | Fixed | 1.37% | | | | | | |
| Borrowing MEC ORES 2018 Lot 1 | 50,000 | 0 | 50,000 | 2022 | Fixed | 0.24% | | | | | | |
| Borrowing MEC ORES 2018 Lot 2 | 30,000 | 0 | 30,000 | 2023 | Fixed | 0.50% | | | | | | |
| | **1,773,006** | **1,727,876** | **2,379,587** | | | | | | **485,194** | **2,899** | | |

With the exception of the EIB loan, the Group's classic bank loans are not subject to specific covenants (ratios, etc.).

The EIB loan is subject to 3 ratios on the basis of the consolidated accounts drawn up in accordance with Belgian accounting standards (BGAAP):

- EBITDA/debt service more than or equal to 1.3;
- net debt/equity less than or equal to 1.5;
- equity/consolidated balance sheet total more than or equal to 0.3.

These three ratios were respected by the Group at the end of 2018.

For bond issues, the Group must maintain a ratio of 30% equity in relation to the balance sheet total, both in terms of the ORES Assets statutory balance sheet and the consolidated Belgian standard balance sheet. This ratio is an integral part of ORES Assets' articles of association (see capital management in appendix 31).

## Note 17 – Other financial liabilities (in thousands of €)

| | Non-current | | Current | |
|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| **Financial liabilities valued at their fair value through the profit and loss statement** | | | | |
| Derivative instruments - swaps | 4,632 | 9,986 | 2,891 | |
| | **4,632** | **9,986** | **2,891** | **0** |
| **Financial liabilities valued at their amortised cost (excluding borrowings)** | | | | |
| Commercial debts | | | 166,178 | 159,297 |
| Other debts | 178 | 27 | 48,810 | 54,283 |
| | **178** | **27** | **214,988** | **213,580** |
| | **4,810** | **10,013** | **217,879** | **213,580** |

### Fair value

The fair value of commercial debts corresponds to their book value.

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Average credit term for commercial debts (in days) | 50 | 50 |

For an explanation of derivative financial liabilities, please refer to note 28.

## Note 18 – Other debts and other liabilities (in thousands of €)

| | Book value | |
|---|---|---|
| | 31/12/2018 | 31/12/2017 |
| Social security and other taxes | 15,376 | 15,632 |
| Short-term employee benefits and associated provisions | 32,450 | 33,436 |
| Accruals | 136 | 608 |
| Income carried over | 113 | 75 |
| Derivative instruments - swaps | 7,523 | 9,986 |
| Other | 3,645 | 7,336 |
| | **59,243** | **67,073** |
| Of which: not current | 4,810 | 9,986 |
| Of which: current | 54,433 | 57,087 |

For a more detailed explanation of pension provisions and short-term employee benefits, which are also an integral part of this item, see note 20.

For a more detailed explanation of derived instruments, see note 28.

## Note 19 – Provisions (in thousands of €)

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Environmental remediation | 3,654 | 5,654 |
| Other | 50,376 | 28,016 |
| | **54,030** | **33,670** |
| Of which: current | | |
| Of which: not current | 54,030 | 33,670 |

| | 31/12/2018 | | | 31/12/2017 | | |
|---|---|---|---|---|---|---|
| Changes to provisions (excluding employee benefits) | Environ-mental remediation | Other | Total | Environ-mental remediation | Autres | Total |
| As at 1 January | 5,654 | 28,016 | 33,670 | 5,342 | 19,360 | 24,702 |
| Additional provisions recognised | | 21,281 | 21,281 | 312 | 9,975 | 10,287 |
| Total used during the financial year | | (921) | (921) | | (137) | (137) |
| Total reversed during the financial year | | | 0 | | (1,182) | (1,182) |
| Transferred | (2,000) | 2,000 | 0 | | | |
| **At the end of the year** | **3,654** | **50,376** | **54,030** | **5,654** | **28,016** | **33,670** |
| Of which: current | | | 0 | | | 0 |
| Of which: not current | 3,654 | 50,376 | 54,030 | 5,654 | 28,016 | 33,670 |

Provisions are established when the Group has a current (legal or implicit) obligation resulting from a past event and it is probable that the Group will be bound to settle this obligation, where it must be possible to estimate the total value of this obligation reliably.

## Environmental remediation

The implementation of the decree of 5 December 2008 on soil management could justify certain expenses connected to cleaning up certain polluted sites. Within this context, the Group is taking appropriate measures in terms of preventing ground pollution as well as information about the existence of pollution. Provisions are therefore established for this purpose.

Five sites were the subject of an exploratory study in 2012 which demonstrated the existence of pollution exceeding the thresholds defined by the Soil decree. In accordance with article five of this decree, the Group notified the administration and the municipalities affected by this pollution and established provisions based on estimates made by the independent expert responsible for the abovementioned study.

In 2017, another site was also the subject of a study to determine the cost of future remediation work. Following this, a new provision for €0.3 million was established.

In 2018, no changes were recorded regarding these provisions, and no new studies were carried out on the Group's other sites. This is due to be carried out in 2019.

## Other

Given its activities, the Group is also exposed to legal risks. Provisions for disputes are therefore regularly updated in consultation with the Group's legal department. The provisions established correspond to the best estimates of the outflow of funds considered probable by the Group.

As a reminder, in 2015, provisions for a total of €12.8 million were established to fulfil legal or regulatory obligations. In fact, a decree published by the Walloon Government demands that we vectorise the network plans; while we had also covered the applicable risks associated with the switch to the new IT systems needed for market processes and changes to them.

In 2018, the Group decided to increase the provision for the "Atrias" project for a total of €14.6 million following problems encountered and delays to the project.

Two new provisions were established for, on the one hand, a dispute with a supplier following the termination of the IT service contract to implement an information system for smart metering (€4.8 million) and, on the other hand, a dispute relating to social administration (€0.3 million).

## Note 20 – Employee benefits – General (in thousands of €)

| Financial situation | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Non-current** | | |
| Benefits connected to pensions – funded plans | (175,541) | (211,793) |
| Benefits connected to pensions – non-funded plans | 6,246 | 14,083 |
| Other post-employment benefits | 91,043 | 99,337 |
| Other long-term benefits | 35,874 | 32,758 |
| | **(42,378)** | **(65,615)** |
| Effect of the asset ceiling | 125,651 | 168,383 |
| | **83,273** | **102,768** |
| **Current** | | |
| Wages and bonuses | 32,450 | 33,436 |
| | **32,450** | **33,436** |
| | **115,723** | **136,204** |

| Statement of comprehensive income | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Salaries | 141,303 | 138,844 |
| Social security contributions | 33,514 | 38,546 |
| Expenses connected to pensions and other long-term benefits | 16,075 | 10,111 |
| Other social expenses | 15,045 | 14,505 |
| Of which included in the cost of fixed assets | (77,816) | (72,312) |
| | **128,121** | **129,694** |

| Average number of staff members | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Employees - total full-time equivalents | 2,336 | 2,324 |

A description of the employee benefits is included in the accounting policies (see point 3.A.11).

Post-employment benefits mainly include tariff benefits and healthcare benefits granted to employees after retirement.

The other long-term benefits mainly include the jubilee bonuses granted to executives and salary-scaled employees.

## Note 21 – Employee benefits – Defined benefit plans (in thousands of €)

### 1. Pension plans with defined benefits covered by hedging assets (funded plans)

Pensiobel/Elgabel

Different pension plans with defined benefits are in place within ORES scrl and are governed by the joint committee for the gas and electricity sector (CP 326). These are the Pensiobel and Elgabel pension plans. In most cases these are aimed at salary-scaled employees taken on before 1 January 2002 as well as executives and management staff taken on before 1 May 1999, within the context of a permanent contract with the Gas and Electricity status. The pension capital that will be paid to workers depends to a large extent on the number of years and months of service achieved within the employment contract at the normal retirement age, even in the event of early retirement (this working period is complemented, if applicable by an additional period defined by the CCT and the 2007-2008 framework agreements) and the employee's salary at retirement age. If the employee dies before retirement, a death benefit will be paid to their beneficiaries as well as an annual pension to each child of the employee under the age of 25. These liabilities are covered in the "funded plans" section.

Powerbel/Enerbel

Two other pension plans, previously treated as defined contributions, also exist within the Group, one also aimed at executives and management staff taken on from 1 May 1999 onwards or who opted for this plan on 1 January 2007 (Powerbel), the other aimed at salary-scaled staff taken on since 1 January 2002 (Enerbel).

In fact, following the change in the law on supplementary pensions (L.P.C. 28/4/2003 – Art 24) which came into force on 1 January 2016 and now imposes the same minimum rate of return on employer contributions as staff contributions (new formula based on the Belgian OLO rate with a minimum threshold set at 1.75% and a maximum threshold set at 3.75%.), a review was carried out within the ORES group, resulting in Powerbel and Enerbel pension plans being recorded as defined benefit plans as of 1 January 2016. These two plans, which grant a pension capital determined by the total value of premiums paid and the return attributed to them, are described below.

*Enerbel*

The personal contribution paid for by the employee is determined on the basis of a step rate, equal to 0.875% of the portion of the salary below a defined threshold, plus 2.65% of the portion of the salary above this threshold. This contribution is deducted from the employee's monthly salary. The employer's contribution is three times the personal contribution.

*Powerbel*

The personal contribution paid for by the employee is determined on the basis of a step rate, equal to 0.6% of the portion of the salary below a defined threshold, plus 4.6% of the portion of the salary above this threshold. This contribution is deducted from the employee's monthly salary. The employer's contribution is four times the personal 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 account for these two pension plans. They are also included under "funded plans".

Whereas in 2016, we used the same discount rate to evaluate our employee benefits connected to the new status pension plans and post-employment benefits, in 2017, the Group has decided to apply a separate rate to post-employment benefits. In fact, given the duration of these plans, which is different from those for the new status pension plans (13 years for post-employment benefits as opposed to 20 years for new status pension plans, or 9 years for old status plans), it was no long consistent to keep the same discount rate. So since the previous year, three discount rates have applied to our employee benefits (see table below relating to our actuarial hypotheses).

"Overheads" scheme

This scheme, which came to an end on 1 January 1993, was designed to grant a life annuity at retirement age equivalent to 75% of the final salary for a full career, after the statutory pension had been deducted. In the event of death, 60% of the annuity was payable to the surviving spouse. For surviving children, the annuity is set at 15% of the pension annuity or 25% for children who have lost both their parents (maximum three children). For employees benefiting from this scheme still working on 1 January 2007, pension rights acquired were already established for careers after this date in the Elgabel OFP.

In 2016, the Group decided to fund this scheme as well, and so it was reclassified under "funded plans".

## 2. Pension plan with defined benefits not covered by hedging assets (non-funded plans)

As the "overheads" plan has been reclassified under "funded plans", this item no longer includes the benefits granted by the group when employees retire, such as the reimbursement of healthcare costs and tariff benefits, as well as the liabilities associated with those who have become unable to work.

The Enerbel and Powerbel plans expose the employer to investment risk because, as indicated above, since 1 January 2016, for this kind of plan, legislation has imposed the same minimum rate of return on employer contributions as staff contributions (based on the Belgian OLO rate with a minimum threshold set at 1.75% and a maximum threshold set at 3.75%.).

Until 30 June 2016 (Enerbel) and 30 September 2016 (Powerbel), employee contributions were paid to an insurance group (Contassur S.A. - branch 21 - deferred capital without repayment). Since then, as is the case for employer contributions, they have been paid into a pension fund that no longer guarantees a minimum return. Following on from this change, the reserves accumulated in the group insurance individual contracts have also been transferred to the pension fund with a guaranteed rate of 3.25%.

We should also point out that on 1 January 2017, Contassur changed its guaranteed interest rate, setting it at 0% for annual level premiums and 0.5% for successive one-off premiums.

| Financial situation | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Discounted value of the defined benefit obligation/funded plans | 331,835 | 315,071 |
| Plan assets | (507,376) | (526,864) |
| **Deficit / (surplus)** | **(175,541)** | **(211,793)** |
| Discounted value of other long-term benefits/funded plans | 36,411 | 42,978 |
| Plan assets for other long-term benefits | (537) | (10,220) |
| **Deficit / (surplus)** | **35,874** | **32,758** |
| **Discounted value of the defined benefit obligation/non-funded plans** | **97,289** | **113,420** |
| **Effect of the asset ceiling** | **125,651** | **168,383** |
| **Net liability arising from the defined benefit obligation** | **83,273** | **102,768** |
| **Reimbursement rights** | **(1,352)** | **(1,674)** |

| Statement of comprehensive income | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Cost of services** | | |
| Cost of services provided | 13,453 | 14,137 |
| | **13,453** | **14,137** |
| **Net interest on the defined benefit liability (asset)** | | |
| Interest charges arising from the defined benefit obligation | 5,796 | 5,925 |
| Interest income on plan assets | (6,381) | (6,330) |
| Interest relating to the effect of the asset ceiling | 1,987 | 1,651 |
| | **1,402** | **1,246** |
| **(Income)/expenses recorded in the profit and loss statement in relation to defined benefit plans** | **14,855** | **15,383** |

| Revaluation of the net liability (asset) in terms of the defined plans recorded under other comprehensive income (OCI) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Actuarial (gains/) losses arising from defined benefit obligations from:** | | |
| i Changes in demographic hypotheses | 0 | 26,097 |
| ii Changes in financial hypotheses | (6,511) | 11,227 |
| iii Adjustments arising from experience | 1,773 | (27,849) |
| **Subtotal** | **(4,738)** | **9,475** |
| i Return on plan assets excluding interest income from plan assets | 42,115 | (8,220) |
| ii Changes in financial hypotheses | | |
| iii Change in the effect of the asset ceiling excluding associated interest | (44,719) | 43,016 |
| **Subtotal** | **(2,604)** | **34,796** |
| | **(7,342)** | **44,271** |
| **(Income)/expenses for defined benefit plans** | **7,513** | **59,654** |

In terms of the actuarial hypotheses, there was not much change in 2018, apart from the discount rates that were revised for different plans. As a result, actuarial differences relating to liabilities (€4.7 million) recorded under other comprehensive income are lower this year compared with 2017 (€9.5 million) and are mainly only due to the change in the discount rate, up 2018, thus generating income of €6.5 million.

In terms of the expenses recorded this year connected to the return on assets, they come from the fact that the rate of return on our hedging assets recorded at the end of 2018 is lower than that estimated on 31 December 2017 (equal to the discount rate).

The decrease in our hedging assets (see below) has led to a reduction in our hedging asset ceiling, which went from €168 million to €126 million, generating an income of €44.7 million and at the same time offsetting the expenses connected to the return.

| Changes in the discounted value of the defined benefits | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Opening balance** | **428,491** | **411,632** |
| Cost of services provided | 13,453 | 12,748 |
| Interest cost | 5,796 | 5,925 |
| Contributions from plan participants | 1,411 | 1,389 |
| **Actuarial (gains/) losses arising from:** | | |
| I Changes in demographic hypotheses | 0 | 26,097 |
| II Changes in financial hypotheses | (6,511) | 11,227 |
| III Adjustments arising from experience | 1,566 | (27,849) |
| Transfer of other long-term benefit obligations to DB plans | 6,345 | |
| Benefits paid | (21,635) | (12,678) |
| Other | 208 | |
| **Closing balance** | **429,124** | **428,491** |

The transfer of other long-term benefit obligations to DB plans (defined benefit pension plans) relates to jubilee bonuses. In fact, in 2018, after an analysis of our plans connected to jubilee bonuses, the Group decided to reclassify the part of the plan relating to jubilee bonuses paid into a pension plan (the liabilities as well as the associated hedging assets) as defined benefit plans and value them in the same way as a defined benefit plan. The jubilee bonuses paid directly to employees continue to be taken into account under other long-term benefits.

| Changes to the fair value of plan assets | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Opening balance** | **526,864** | **467,548** |
| Interest income on plan assets | 6,381 | 6,330 |
| Return on plan assets excluding interest income from plan assets | (29,491) | 8,220 |
| Actuarial variations | (12,625) | 0 |
| Employer's contributions | 27,369 | 55,363 |
| Contributions from plan participants | 1,411 | 1,389 |
| Benefits paid | (21,633) | (11,986) |
| Transfer of other long-term benefit assets to DB plans | 9,100 | 0 |
| **Closing balance** | **507,376** | **526,864** |
| **Actual return of plan assets** | **(23,110)** | **14,550** |

| Main actuarial hypotheses used | | | 31/12/2018 | 31/12/2017 |
|---|---|---|---|---|
| Discount rate on plans connected to old contracts | | | 1.34% | 1.18% |
| Discount rate on plans connected to new contracts | | | 1.79% | 1.66% |
| Discount rate on tariff and healthcare benefits | | | 1.76% | 1.63% |
| Expected salary increases - old conditions (excluding inflation) | | | 0.87% | 0.87% |
| Expected salary increases - new conditions (excluding inflation) | | | 2.36% | 2.36% |
| Turnover rate for old contracts | | | 1.00% | 1.00% |
| Turnover rate for new contracts | | | 2.00% | 2.00% |
| Expected increase in medical costs (excluding inflation) | | | 1.00% | 1.00% |
| Increase in the average cost relating to tariff reductions | | | 1.75% | 1.75% |
| Inflation rate | | | 1.75% | 1.75% |
| Average retirement rate for old conditions | | | 63 years | 63 years |
| Average retirement age for new conditions | | | 64 years | 64 years |
| Mortality table used for active employees | | | IA/BE prospective table | |
| Mortality table used for non-active employees | | | IA/BE prospective table | |
| Life expectancy in years for an employee retiring at 65: | For someone aged 65 at the closing date: | Male | 19.8 | 22.5 |
| | | Female | 24 | 22 |
| | For someone aged 65 in 20 years: | Male | 22.3 | 22.3 |
| | | Female | 26 | 26 |

| Breakdown of the defined benefit obligation by type of plan participant | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Active plan participants | 293,020 | 286,131 |
| Outgoing participants with deferred rights to benefits | 6,794 | 5,742 |
| Retired participants and beneficiaries | 129,310 | 136,618 |
| | **429,124** | **428,491** |

| Breakdown of the defined benefit obligation by type of benefit | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Benefits linked to retirement or death | 338,081 | 329,154 |
| Other employee benefits (medical and tariff reductions) | 91,043 | 99,337 |
| | **429,124** | **428,491** |

| | Fair value of plan assets | |
|---|---|---|
| Main categories of plan assets | 31/12/2018 | 31/12/2017 |
| **With a market price listed on an active market** | **414,675** | **459,315** |
| Shares (Eurozone) | 55,610 | 54,675 |
| Shares (outside Eurozone) | 107,841 | 116,064 |
| Government bonds (Eurozone) | 2,062 | 36,629 |
| Other bonds (Eurozone) | 162,581 | 194,801 |
| Other bonds (outside Eurozone) | 86,581 | 57,146 |
| **Without a market price listed on an active market** | **92,701** | **67,549** |
| Cash | 20,084 | 5,263 |
| Real estate | 8,825 | 13,910 |
| Other | 63,792 | 48,376 |
| | **507,376** | **526,864** |

| Sensitivity analysis for each of the main actuarial hypotheses arising from the defined benefit obligation | Impact on the defined benefit obligation 31/12/2018 | 31/12/2017 |
|---|---|---|
| Discount rate above 0.25% (0.5% in 2017) | (2,287) | (24,302) |
| Salary increase plus 0.1% (0.5% in 2017) (excluding inflation) | 11,981 | 9,074 |
| Change in medical costs plus 1% | 1,528 | 13,251 |
| Change in the average cost relating to tariff reductions plus 0.5% | 6,308 | 4,414 |
| Inflation rate plus 0.25% | 16,627 | 17,561 |
| 1-year correction applied to the mortality tables | 16,344 | 9,343 |

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Weighted average duration of the defined benefit obligation for plans related to old contracts and other long-term benefits | 9 | 10 |
| Weighted average duration of the defined benefit obligation for plans related to new contracts | 20 | 20 |
| Weighted average duration of the defined benefit obligation for other post-employment benefits | 13 | 18 |
| Expected contribution during the following year for defined benefit plans related to old contracts | 8,238 | 4,451 |
| Expected contribution during the following year for defined benefit plans related to new contracts | 5,158 | 5,820 |

Each year, the discount rate used to calculate pension obligations in terms of the minimum funding requirements is compared with the expected rate of return for assets managed according to the investment policy defined by the sponsor.

The expected rate of return is calculated on the basis of a risk-free market rate defined by the financial markets at the end of the year, on the basis of a risk premium linked to each category of investment in the portfolio and associated volatility. If the expected rate of return is lower than the discount rate, the latter is adjusted to match the expected rate of return.

A stress test is carried out every year. This is used to make sure the minimum financing requirements are covered, despite a change to the rate set at 0.5%.

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

The defined benefit pension plans are also funded by the employer via a recurring allocation expressed as a percentage of the total salary of plan participants. This percentage is defined using the aggregated costs method and reviewed every year. This method involves distributing future costs over the remaining term of the plan. The costs are estimated on the basis of projections, taking into account, among other things, changes to salaries and inflation. The hypotheses relating to salary increases, inflation, staff turnover and retirement age are defined on the basis of the statistics in the company's possession. The mortality tables used are those corresponding to the facts observed for the plan in question. The discount rate is defined in relation to the company's investment strategy. All of the hypotheses are reviewed regularly.

Some exceptional events, such as changes to a plan, changes to a hypothesis, a level of cover being too low etc. may result in exceptional payments by the sponsor.

In 2018, the discount rate for Elgabel and Pensiobel pension plans rose from 1.18% to 1.34% following the increase in the rate of return for the company's high-yield 10-year bonds (AAA). In fact, the average term of Elgabel/Pensiobel defined plans is approximately 9 years, a relatively short period due to the fact that these plans are closed and the benefits are paid in the form of a capital amount and not in annuities.

In terms of Powerbel and Enerbel pension plans, as their estimated term is 20 years, the discount rate is set at 1.79% (1.66% in 2017 – iBoxx benchmark).

## 3. Description of the risks faced by defined pension plans

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

<u>Investment risk</u>
The current value of a defined benefit plan's liabilities is calculated using a discount rate determined by referring to companies' high-yield bonds. If the rate of return for the plan assets is lower than the discount rate, this will result in a plan deficit. As far as we are concerned, investments are incredibly diversified and well balanced (see table below).

Due to the long-term nature of the plan's liabilities, the pension fund's Board of Directors considers it appropriate that some of the plan assets should be invested in shares in order to generate leverage and improve the fund's performance.

<u>Interest rate risk</u>
A reduction in the bond interest rate will increase the plan's liabilities. However, this will be partially offset by an increase in the return on the plan's bond investments.

<u>Longevity risk</u>
The current value of the defined benefit plan's liabilities is calculated with reference to the best estimate of the mortality of plan participants, both during their employment contract, and also after their retirement. An increase in the life expectancy of plan participants will result in an increase in the plan's liabilities.

Since 2015, the ORES group has used new prospective mortality tables put together by the Institut des Actuaires en Belgique (IA/BE).

<u>Salary risk</u>
The current value of the defined benefit plan's liabilities is calculated with reference to the future salary of the plan participants. If this goes up, this will result in an increase in the plan's liabilities.

## Note 22 - Lease contracts (lessee) (in thousands of €)

| Operating lease contracts | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Payment recorded as an expense in the profit and loss statement** | | |
| Minimum lease payments | 15,886 | 20,583 |
| Sub-lease payments received | (3,738) | (3,575) |
| | **12,148** | **17,008** |
| **Maturity of outstanding liabilities connected to operating lease contracts that cannot be cancelled for a period of more than one year** | | |
| Within the year | 6,287 | 5,966 |
| >1 and < 2 years | 3,848 | 4,067 |
| > 2 and < 5 years | 4,966 | 3,307 |
| More than 5 years | 2,669 | 82 |
| | **17,770** | **13,422** |

There are no liabilities recorded relating to operating lease contracts that cannot be cancelled.

The leases mainly include:

- leases on office buildings;
- leases on vehicles for executive and management staff;
- leases on IT hardware and software licences (licences, PCs, laptops, printers etc.);
- fees paid for the use of fibre optics.

Long-term liabilities are mainly made up of leases on office buildings and vehicles for executive and management staff.

## Note 23 – Current taxes (in thousands of €)

### Tax expenses recorded in the profit and loss statement

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Tax expenses due for the year | 52,350 | 62,604 |
| Adjustments recorded during the year in relation to the tax due for previous periods | (148) | 444 |
| Tax relating to interest received | 17 | 1 |
| **Current tax expense (income)** | **52,219** | **63,049** |
| Deferred tax expense (income) in relation to the recognition or reversal of temporary differences | 19,194 | 4,647 |
| **Deferred tax expense (income)** | **19,194** | **4,647** |
| **Total tax expenses recorded under profit/loss** | **71,413** | **67,696** |

The decrease in the current tax expenses recorded under profit (-€10.8 million) comes from a lower profit before tax this year compared with 2017, combined with a reduction in the tax rate in Belgium, from 33.99% in 2017 to 29.58% in 2018 and 2019. We should point out that it will change to 25% in 2020.

It is worth mentioning that the Group once again benefited from a tax credit (€11 thousand) linked to the tax shelter by taking part in the production of a Belgian audio-visual project that will be produced in 2019.

When it comes to deferred taxes, the increase (+€14.5 million) can be explained by the fact that 2017 was marked by the impact of the change in the corporation tax rate, which resulted in an income of €24.3 million. This year, this impact is just €0.4 million.

In addition, this year the deferred tax expenses connected to provisions for employee benefits were also lower than in 2017 (-€8 million).

## Reconciliation of the actual tax rate with the theoretical tax rate

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Profit/loss before tax | 233,826 | 266,024 |
| Tax rate in Belgium | 29.58% | 33.99% |
| **Theoretical tax expenses to pay** | **69,166** | **90,422** |
| **Adjustments** | | |
| Tax on non-deductible expenses | 3,593 | 4,213 |
| (Income) linked to the use of notional interests | (46) | (619) |
| (Income) linked to the deduction for investment | (300) | |
| Tax credit linked to the tax shelter | (11) | (13) |
| Deferred tax expense in relation to the recognition or reversal of temporary differences | 2,038 | |
| Deferred tax (income) in relation to the recognition or reversal of temporary differences | (2,485) | (2,489) |
| Deferred tax (income) following the future change in tax rate | (411) | (24,263) |
| Tax relating to interest received | 17 | 1 |
| | **2,395** | **(23,170)** |
| **Tax relating to the previous period** | **(148)** | **444** |
| **Total tax expenses for the period** | **71,413** | **67,696** |
| Average actual rate | 30.54% | 25.45% |

## Tax expense recorded under other comprehensive income

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Deferred tax expense (income) on the fair value of cash flow hedging instruments | 616 | 3,515 |
| Deferred tax expense (income) on defined benefit plans | 1,835 | (15,048) |
| Deferred tax expense (income) following the future change in tax rate | 0 | (56,562) |
| **Total tax expense under other comprehensive income** | **2,451** | **(68,095)** |

As a reminder, temporary differences on assets and liabilities whose changes are recorded under other comprehensive income were also recorded in this item as required by the IAS 12 standard - Income tax (on this point, please refer to the IFRS 2014 and 2015 annual reports for more details).

This is particularly the case for outstanding hedging swaps at the end of 2018, for which a favourable valuation of the fair value resulted in a reduction in the deferred tax asset recorded at the end of 2018, generating a deferred tax expense of €0.6 million (on this point, see note 27).

This year's actuarial variations are also in the Group's favour (+€7.3 million - see note 21) and have resulted in a deferred tax expense of €1.8 million.

As a reminder, and as explained above, following the adoption of the law on tax reform, the impact of the future change in tax rate resulted in us recording a deferred tax income of €56.7 million at the end of 2017. As the table in note 24 of the 2017 annual report showed, this income largely came about due to the impact of change in rate on the deferred tax liability connected to the revaluation of tangible fixed assets (+€67.8 million), for which the initial change had been recorded under other comprehensive income (see 2014 annual report).

## Note 24 – Deferred taxes (in thousands of €)

### Overview of deferred tax assets and liabilities by type of temporary difference

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Intangible fixed assets | | | (4,732) | (2,542) | (4,732) | (2,542) |
| Tangible fixed assets | | | (84,328) | (73,059) | (84,328) | (73,059) |
| Tangible fixed assets - revaluation | | | (204,761) | (208,795) | (204,761) | (208,795) |
| Other non-current assets | | | (1,722) | (379) | (1,722) | (379) |
| Trade receivables and other receivables | 2,242 | | | | 2,242 | |
| Other current assets | 10,691 | 13,193 | | | 10,691 | 13,193 |
| Provisions for employee benefits | 15,120 | 25,692 | | | 15,120 | 25,692 |
| Borrowings | | | (625) | (233) | (625) | (233) |
| Other provisions | | | (34) | (34) | (34) | (34) |
| Other non-current liabilities | 1,158 | 2,496 | | | 1,158 | 2,496 |
| Other current liabilities | | | (671) | (2,356) | (671) | (2,356) |
| **Total temporary differences** | **29,211** | **41,381** | **(296,873)** | **(287,398)** | **(267,662)** | **(246,017)** |
| **Deferred tax assets (liabilities)** | **29,211** | **41,381** | **(296,873)** | **(287,398)** | **(267,662)** | **(246,017)** |
| Compensation (1) | (29,211) | (41,381) | 29,211 | 41,381 | 0 | 0 |
| **Total, net** | **0** | **0** | **(267,662)** | **(246,017)** | **(267,662)** | **(246,017)** |

(1) According to IAS 12 - Income tax, deferred tax assets and liabilities must be offset under certain conditions if they relate to income tax due to the same tax authority.

## Changes recorded in the deferred tax balances

| | Opening balance | Recorded in the profit and loss statement | Recorded under other comprehen-sive income | Recorded directly under equity | Closing balance |
|---|---|---|---|---|---|
| **Temporary differences** | | | | | |
| Intangible fixed assets | (2,542) | (2,190) | | | (4,732) |
| Tangible fixed assets | (73,059) | (11,269) | | | (84,328) |
| Tangible fixed assets - revaluation | (208,795) | 4,034 | 0 | | (204,761) |
| Other non-current assets | (379) | (1,343) | | | (1,722) |
| Trade receivables and other receivables | 0 | 2,242 | | | 2,242 |
| Other current assets | 13,193 | (2,502) | | | 10,691 |
| Provisions for employee benefits | 25,692 | (8,737) | (1,835) | | 15,120 |
| Other provisions | (34) | 0 | | | (34) |
| Other non-current liabilities | 2,496 | | (1,338) | | 1,158 |
| Borrowings | (233) | (392) | | | (625) |
| Other current liabilities | (2,356) | 963 | 722 | | (671) |
| | **(246,017)** | **(19,194)** | **(2,451)** | **0** | **(267,662)** |
| **Tax credits and tax losses carried forward** | | | | | |
| Tax credits | | | | | 0 |
| Tax losses carried forward | | | | | 0 |
| | **0** | **0** | **0** | **0** | **0** |
| **Total changes, net** | **(246,017)** | **(19,194)** | **(2,451)** | **0** | **(267,662)** |

## Deferred taxes recorded in the consolidated statement of the financial situation

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Deferred tax assets | | |
| Deferred tax liabilities | (267,662) | (246,017) |
| | **(267,662)** | **(246,017)** |

## Note 25 – Subsidiaries

### Summary of subsidiaries

| | Country of incorporation | Percentage of capital owned | Percentage of voting rights held | Report date | Main activity |
|---|---|---|---|---|---|
| ORES scrl | Belgium | 99.72% | 99.72% | December | Energy network operator |

### ORES scrl's shareholding is made up as follows:

| | % Shareholding 2018 | Number of shares | % Shareholding 2017 | Number of shares |
|---|---|---|---|---|
| ORES Assets | 99.72% | 2,453 | 99.72% | 2,453 |
| 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 7 shares in ORES scrl to the purely financing intermunicipal companies (IPFs) as well as one share to RESA (formerly Tecteo). This resulted in non-controlling interests being recorded in the consolidated financial statements for a total of €31,000.

In 2017, following RESA's complete takeover of the system operator's activities for the centre of the city of Liège, the share owned 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 but that is not consolidated.

There is no investment in which we own less than 50% of the voting rights but that is 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 the repayment of loans and advances.

## Note 26 - Shareholdings in associated companies (in thousands of €)

### Summary of associated companies

| | Country of incorporation | Percentage of capital owned | Percentage of voting rights held | Fair value of the shareholding in associated companies (1) | Main activity |
|---|---|---|---|---|---|
| Atrias | Belgium | 16.67% | 16.67% | N/A | IT support relating to taking meter readings for the ORES and the EANDIS economic group, as well as other DSOs in Belgium (Sibelga, RESA etc.) |

(1) For which there are listed prices that have been published.

### Changes in shareholdings in associated companies

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Balance as at 1 January** | **3** | **3** |
| Acquisition of shares | | |
| Transfer of shares | | |
| **Balance as at 31 December** | **3** | **3** |
| Premium included in the book value of shares in associated companies. | | |

## Summary of financial information

| | ATRIAS | | TOTAL | |
|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Sales and other operating income | 21,575 | 22,739 | 21,575 | 22,739 |
| Profit (loss) before interest and taxes | 241 | 217 | 241 | 217 |
| Financial profit/loss | (185) | (158) | (185) | (158) |
| Profit (loss) before taxes | 58 | 59 | 58 | 59 |
| Taxes | (58) | (59) | (58) | (59) |
| **Profit (loss) for the year** | **0** | **0** | **0** | **0** |
| Group's share of the profit (loss) generated by associated companies | | | | |
| Non-current assets | 44,496 | 34,015 | 44,496 | 34,015 |
| Current assets | 8,909 | 8,026 | 8,909 | 8,026 |
| **Total assets** | **53,405** | **42,041** | **53,405** | **42,041** |
| Non-current liabilities | | | | |
| Current liabilities | 53,386 | 42,022 | 53,386 | 42,022 |
| **Total liabilities** | **53,386** | **42,022** | **53,386** | **42,022** |
| **Net assets** | **19** | **19** | **19** | **19** |
| Group's share of the net assets of associated companies | 3 | 3 | 3 | 3 |
| Loans granted by companies in the Group to associated companies | 7,955 | 7,175 | 7,955 | 7,175 |

The Group has a significant influence on Atrias as there are two representatives of the Group on its Board of Directors (vice chairman and director), as well as due to the fact that decisions regarding all fundamental issues for the company are made unanimously by the Board of Directors.

## Note 27 - Fair value of financial instruments (in thousands of €)

### Analysis of the financial instruments valued at their fair value by fair value hierarchy

| | 31/12/2018 | | | | 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Level 1 | Level 2 | Level 3 | Total fair value |
| **Financial assets** | | | | | | | | |
| Collar – cap | | 5,239 | | 5,239 | | 1,518 | | 1,518 |
| Swap | | 1,648 | | 1,648 | | | | |
| Unlisted equity instruments | | 629 | | 629 | | 841 | | 841 |
| Trade receivables | | 135,915 | | 135,915 | | 184,138 | | 184,138 |
| Other receivables | | 51,326 | | 51,326 | | 53,298 | | 53,298 |
| Listed equity instruments – Sicavs and stock options | | | | | | 7,354 | | 7,354 |
| **Total financial assets** | **0** | **194,757** | **0** | **194,757** | **0** | **247,149** | **0** | **247,149** |
| **Financial liabilities** | | | | | | | | |
| Commercial debts | | 166,178 | | 166,178 | | 159,297 | | 159,297 |
| Other debts | | 48,810 | | 48,810 | | 54,283 | | 54,283 |
| Interest rate swaps | | 7,523 | | 7,523 | | 9,986 | | 9,986 |
| **Total financial liabilities** | **0** | **222,511** | **0** | **222,511** | **0** | **223,566** | **0** | **223,566** |

The hierarchy used to determine the fair value of financial instruments by valuation technique is as follows:

- level 1 - Listed (unadjusted) price on active markets for identical assets or liabilities;
- level 2 - Input other than the listed prices mentioned in level 1, which is observable for the asset or liability in question, either directly (namely the prices) or indirectly (namely input derived from prices);
- level 3 - Input relating to the asset or liability that is not based on observable market data (unobservable input).

### Description of the methods used to assess the determine the fair value of derivative instruments

- **For derivative financial instruments**: The fair value is determined on the basis of estimated future cash flows depending on interest rate curves.
- **For commercial receivables and debts as well as other receivables and debts**: The fair value is assumed to be the same as their book value.

Please refer to note 28 for an analysis of changes to the fair value of swaps and caps.

## Note 28 – Derivative instruments (in thousands of €)

### Summary of derivative financial instruments

| | Positive fair values | |
|---|---|---|
| | 31/12/2018 | 31/12/2017 |
| **Derivative instruments not used in cash flow hedges** | | |
| Interest rate cap | 5,239 | 1,518 |
| Inflation rate swap | 1,648 | |
| | **6,887** | **1,518** |
| of which: not current | 6,887 | 1,518 |
| of which: current | | |

| | Negative fair values | |
|---|---|---|
| | 31/12/2018 | 31/12/2017 |
| **Derivative instruments used in cash flow hedges** | | |
| Interest rate swaps | 7,523 | 9,986 |
| | **7,523** | **9,986** |
| of which: not current | 4,632 | 9,986 |
| of which: current | 2,891 | 0 |

## Description of the hedging policy within the Group

With a view to managing interest rate risks, the Group uses derivatives such as interest rate swaps (variable rates to fixed rates), caps and collars (combination of caps and floors). Debt management and market data are carefully monitored within the Group. No derivatives are used for speculative purposes.

Given the high proportion of variable rate loans in its portfolio (see note 16), in the last three years the Group has taken out several interest rate caps, with a fair value at the end of 2018 of €4.6 million, in order to cover itself against a potential rise in variable rates in the next few years. After analysing the situation, the Group decided not to use hedge accounting, so the variation in their fair value is recorded in the profit and loss statement for the period.

The Group also took out a swap to cover the risk of future inflation on our operating expenses with a fair value of €1.6 million at the end of 2018. After analysing the situation, the Group decided not to use hedge accounting for this instrument, so the variation in its fair value is recorded in the profit and loss statement for the period.

In terms of interest rate swaps, as the short-term rates stayed fairly stable during 2018, the main explanation for the positive variation in the fair value of swaps (+€2.5 million) lies in the fact that those in the portfolio at the end of 2018 had a lower negative fair value than in 2017 as they were approaching maturity and one more year of interest expenses was taken into account this year (€4.6 million). As a result, the reinvestment costs that the Group should pay to get out of swap contracts are lower than on 31 December 2017, generating the gain recorded as at 31 December 2018.

# Other appendices to the financial statements

## Note 29 – Related parties (in thousands of €)

The transactions shown below are those carried out with all related parties (apart from parties with consolidated links), including:

- majority shareholders and all companies controlled directly or indirectly by them;
- shareholders with a significant influence;
- companies with which there is a shareholding connection and joint ventures;
- the Group's key employees;
- other parties with significant links.

| | Type of relationship | Receivables | | Debts | | Statement of comprehensive income | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Due in more than one year | Due during the year | Due in more than one year | Due during the year | Turnover | Other operating income | Cost of sales | Other operating expenses | Financial income |
| Related party as at 31/12/2018 | | | | | | | | | | |
| Atrias | Shareholder funding | 7,955 | | | | | | | | 36 |
| Atrias - client | Accounting | | 28 | | | | 139 | | | |
| Atrias - supplier | IT services - projects | | | | 589 | | | | (5,852) | |
| N-Allo | Call centre | | | | 555 | | | | (5,574) | |
| IPFH | Road charges | | | | | | | 0 | | |
| | | **7,955** | **28** | **0** | **1,144** | **0** | **139** | **0** | **(11,426)** | **36** |
| Related party as at 31/12/2017 | | | | | | | | | | |
| Atrias | Shareholder funding | 7,175 | | | | | | | | 30 |
| Atrias - client | Accounting | | 14 | | | | 136 | | | |
| Atrias - supplier | IT services - projects | | | | 635 | | | | (3,495) | |
| N-Allo | Call centre | | | | 539 | | | | (5,472) | |
| IPFH | Road charges | | | | | | | (13,629) | | |
| | | **7,175** | **14** | **0** | **1,174** | **0** | **136** | **(13,629)** | **(8,967)** | **30** |

In terms of bank loans, we should point out that the Walloon municipalities, as well as the private partner, have guaranteed some loans worth a total of €530.6 million, so 23.72% of the total bank debt at the end of 2018 (compared with €586.5 million, so 25.94% of the total bank debt at the end of 2017). The private partner will release itself from its guarantees (following its withdrawal from the capital of ORES Assets on 31 December 2016) in accordance with a timetable that is yet to be defined.

| Employee benefits for management staff | 31/12/2018 | 31/12/2017 |
| --- | --- | --- |
| Short-term benefits | 2,048 | 1,791 |
| Post-employment benefits | | |
| Discounted value of pension obligation (defined benefits plan) | 4,541 | 5,099 |
| Net cost of the pension for the period | 171 | 192 |
| Termination benefits | 0 | 330 |
| Other long-term benefits | | |
| Discounted value of pension obligation (defined benefits plan) | 44 | 389 |
| Net cost of the pension for the period | 2 | 12 |
| | **6,806** | **7,813** |

Management staff are made up of members of ORES scrl's Board of Directors and members of ORES scrl's Management Committee.

## Note 30 - Events after the end of the reporting period (in thousands of €)

| Type | Estimated financial impact | |
|---|---|---|
| | Financial situation | Comprehensive income |
| Dividends proposed to the ORES Assets General Meeting of shareholders in 2019 | 81,230 | |
| | **81,230** | **0** |

On 1 January 2019, the procedures needed to introduced the new dividend policy were implemented. The R shares existing on this date were converted to A shares. The available reserves as at 31 December 2018 were incorporated into the capital, also resulting in the creation of A shares. Appendix 1 of the articles of association has been updated to included details of the number of A shares following these processes and is included at the end of the 2018 financial report for the ORES Assets accounts.

On 7 February 2019, the CWaPE approved the periodic proposed tariffs for electricity and gas for ORES Assets' 2019-2023 regulatory period. The non-periodic tariffs for the same period were approved on 20 February 2019.

On the basis of the approval by ORES Assets shareholders of the process involving the (partial) transfer of the municipalities of Celles, Comines-Warneton, Ellezelles and Mont-de-l'Enclus de Gaselwest to ORES Assets for the management of the electricity and natural gas distribution networks, as of 1 January 2019. These 4 municipalities have been incorporated into the Mouscron segment. The part of the municipality of Frasnes-lez-Anvaing previously associated with Gaselwest was also transferred from the Hainaut segment to the Mouscron segment. As of this date, the tariffs for the Mouscron segment are applicable for these entities.

## Note 31 – Managing financial risks (in thousands of €)

### 1. Credit risk

General description of how the credit risk is managed

The credit risk is the risk that the debtor will not fulfil its original obligation to repay a "credit". The different components are the counterparty risk, the liquidity risk, the risk associated with the debtor's activity or structure, the sector risk, the financial risk and lastly the political risk.

The Group responds to the credit risk in different ways. In terms of cash flow and investments, the Group's cash surplus is either invested with financial institutions, or in the form of diversified commercial papers with banks or companies fulfilling strict selection criteria.

In terms of trade receivables, it is important to distinguish between:

- receivables connected to transmission fees for which the Group secures bank guarantees and carries out balance sheet analyses before determining the payment terms granted;
- receivables connected to public service obligations (supplying energy) and work for which the Group uses collection agencies.

Details of the maximum credit risk

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Derivative financial assets | 6,887 | 1,518 |
| Trade receivables and other receivables | 187,241 | 237,436 |
| Unlisted equity instruments | 629 | 841 |
| Cash and cash equivalents | 115,797 | 192,912 |
| | **310,554** | **432,707** |

## 2. Liquidity risk

The liquidity risk is the risk that an entity will have difficulty fulfilling its obligations connected to financial instruments.

The liquidity risk is connected to the Group's need to secure the external funding needed, among other things, to complete its investment programme as well as for the refinancing of existing financial debts.

The financing policy is based on covering the funding needs for the current year and maintaining a cash surplus. This last point and the diversification of sources of financing help the Group limit its liquidity risk.

ORES has short-term financing capacity thanks to its programme of commercial papers and credit lines as outlined above; the liquidity risk can therefore be regarded as virtually non-existent. Cash flow management helps limit the risks associated with the market, the way assets and liabilities are structured and liquidity. The management bodies have established a prudent investment management policy, based on diversification as well as the use of products with limited risks in terms of credit and rates. ORES is aware of the issue of negative interest rates when it comes to managing its cash flow.

Finally, it is worth pointing out that the tariff methodology stipulates that all the costs associated with the financing policy are covered by the regulatory budget (2017 and 2018 methodology).

According to market conditions, the Group has implemented a financing strategy that covers either the current year or several years. In 2017, as mentioned in note 16, the Group secured a new credit facility worth €550 million from the European Investment Bank, from which an initial total of €150 million was drawn in 2017 and another €100 million was drawn at the end of 2018. It has also taken out loans from banks and issued short-term commercial papers to cover all of its funding needs.

In terms of maintaining a cash surplus, the Group had €115.8 million in cash as at 31 December 2018 (compared with €192.9 million at the end of 2017) – see note 14.

Details of loans taken out by the Group are included in note 16.

Maturity analysis (based on non-discounted future cash flows)

| | Amount recorded | < 1 year | >1 and <3 years | >3 and <5 years | >5 and <15 years | >15 years | No maturity date | Total |
|---|---|---|---|---|---|---|---|---|
| 31/12/2018 | | | | | | | | |
| Derivative financial assets | 6,887 | | | | 1,585 | | | 1,585 |
| Trade receivables and other receivables | 187,241 | 187,241 | | | | | | 187,241 |
| Unlisted equity instruments | 629 | | | | | | 629 | 629 |
| Cash and cash equivalents | 115,797 | 115,797 | | | | | | 115,797 |
| **Total assets** | **310,554** | **303,038** | **0** | **0** | **1,585** | **0** | **629** | **305,252** |
| Derivative financial liabilities | 7,523 | 4,801 | 2,452 | (4) | (478) | | | 6,771 |
| Borrowings | 2,260,955 | 265,325 | 709,862 | 448,502 | 715,167 | 454,461 | | 2,593,317 |
| Trade debts and other debts | 214,988 | 214,988 | | | | | | 214,988 |
| **Total liabilities** | **2,483,466** | **485,114** | **712,314** | **448,498** | **714,689** | **454,461** | **0** | **2,815,076** |
| **Total liquidity risk** | **(2,172,912)** | **(182,076)** | **(712,314)** | **(448,498)** | **(713,104)** | **(454,461)** | **629** | **(2,509,824)** |
| 31/12/2017 | | | | | | | | |
| Derivative financial assets | 1,518 | | | | 1,513 | | | 1,513 |
| Trade receivables and other receivables | 237,436 | 237,436 | | | | | | 237,436 |
| Financial assets available to sell | 841 | | | | | | 841 | 841 |
| Cash and cash equivalents | 192,912 | 192,912 | | | | | | 192,912 |
| **Total assets** | **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 | 276,577 | 485,914 | 611,595 | 844,199 | 439,379 | | 2,657,664 |
| Trade debts and other debts | 213,580 | 213,580 | | | | | | 213,580 |
| **Total liabilities** | **2,484,521** | **495,375** | **491,574** | **611,338** | **842,804** | **439,379** | **0** | **2,880,470** |
| **Total liquidity risk** | **(2,051,814)** | **(65,027)** | **(491,574)** | **(611,338)** | **(841,291)** | **(439,379)** | **841** | **(2,447,768)** |

## 3. Market risk

The market risk is the risk that the fair value or future cash flows from a financial instrument fluctuate due to changes in market prices. The market risk encompasses three kinds of risk:

- exchange rate (exchange rate risk) - not applicable to the Group;
- market interest rate (interest rate risk);
- market price (for example: share prices, commodity prices) - not applicable to the Group.

The Group's activities essentially expose it to the financial risks associated with interest rate fluctuations. However, the price risk associated with the only SICAV still in the portfolio and classified under "other current assets" is regarded as negligible.

Interest rate risk

The Group has established a policy to manage the interest rate risk based on finding a balance between fixed rate and variable rate loans. To manage the risk of volatile interest rates, it uses hedging derivatives (swaps, caps, collars and rat structures) depending on the market situation. The value of these instruments mainly depends on interest rate fluctuations. The portfolio is managed centrally within the Group and all positions are reviewed periodically.

Sensitivity analysis

*Description of the method and hypotheses used for our sensitivity test*

The interest rate to be used before any change in margin will be calculated as follows:

We take the latest rates on the last working day for the period in question (31/12) and we calculate the average Euribor (Euribor 1, 3, 6, 12 months) and swap rates (for a period of 1 to 30 years). On 31 December 2018, the average Euribor rate remained negative at -0.26% (-0.29% at the end of 2017) and the average swaps rate was 0.59% (0.67% at the end of 2017).

On the basis of these averages, we recalculate the cash flow as at 01/01/N+1.

We then simulate the impact of an increase of 50 basis points on the rate calculated below. We do the same by simulating the impact of a reduction of 50 basis points on the rate curve calculated below.

The impact in each column is measured on 2 levels (in thousands of €):

- Impact on profit before tax (for all products): this column represents the difference between the simulated financial expenses compared to the financial expenses calculated at the end of the reporting period according to the average rate (positive = gain; negative = loss).
- 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).

| | + 50 basis points | | - 50 basis points | |
|---|---|---|---|---|
| | Impact on profit before tax | Impact on equity | Impact on profit before tax | Impact on equity |
| **31/12/2018** | | | | |
| Loan | (3,976) | | 2,462 | |
| Cap | | 3,517 | | (2,337) |
| Swap | 926 | (4,191) | (494) | (15,340) |
| | **(3,050)** | **(674)** | **1,968** | **(17,677)** |
| **31/12/2017** | | | | |
| Loan | (4,679) | | 2,615 | |
| Swap | 1,250 | (7,129) | (829) | (21,144) |
| | **(3,429)** | **(7,129)** | **1,786** | **(21,144)** |

An increase of 50 basis points would lower our profit before tax by €3.1 million and our equity by €0.7 million, while a reduction of 50 basis points would increase our profit by €1.9 million but would have a negative impact of €17.7 million on our equity, mainly because of new swaps taken out at the beginning of 2017.

## 4. Capital risk management

The Group's share capital represents the capital of ORES Assets scrl, Wallonia's electricity and gas distribution network operator. In 2012, it was represented by eight mixed Walloon intermunicipal companies, IDEG scrl, I.E.H. scrl, I.G.H. scrl, Interest scrl, Interlux scrl, Intermosane scrl, Sedilec scrl and Simogel scrl qui, which merged on 31 December 2013, giving rise to ORES Assets scrl. This merger was effective from an accounting point of view with retroactive effect as of 1 January 2013.

ORES Assets' capital is made up of a fixed element (fully subscribed and paid up, fixed at €148,800) and a variable element (also fully subscribed and paid up).

Up until 31 December 2018, the fixed element of the capital was represented by A shares, and the variable element by A and R shares, which are both capital shares. A shares come with voting rights and the right to dividends, while R shares only entitle their owners to (priority) dividends and not the associated right to vote. As of 1 January 2019, following the conversion of R shares to A shares within the context of optimising equity and a new dividend policy, the fixed element and the variable element of the capital are represented by A shares only. This single type of capital share comes with the right to vote and the right to dividends.

The decision to increase or reduce the fixed element of the capital comes within the remit of the General Meeting of shareholders. The variable element of the capital varies according to the admission or exclusion of shareholders and other variable capital increases or reductions. The variable element of the capital can be increased or reduced on the decision of the Board of Directors and does not require a change to the articles of association, but the redemption of capital shares does require a decision by the General Meeting of shareholders. If there is a capital increase, the option to subscribe to the new shares will be offered to shareholders, in proportion to the level of their stake in the share capital.

An intermunicipal company must have at least two municipalities among its shareholders; there are 198 in ORES Assets. Shareholders of an intermunicipal company can also include any private or public legal entity.

ORES Assets was a so-called "mixed" intermunicipal company until 31 December 2016, as part of its capital was owned by municipalities (in Wallonia) either directly or indirectly via a purely financing intermunicipal company (of which there are 7, IDEFIN, IPFH, IEG, IPFBW, FINIMO, FINEST and SOFILUX) and the rest by a private partner (Engie/Electrabel).

Since the withdrawal of the latter on 31 December 2016, the capital shares have been 100% owned by municipalities and the seven purely financing intermunicipal companies.

The regulatory environment in which the Group is evolving is described in note 3.A.15 of the accounting policies. The fair margin rate of return determined by the regulation depends in particular on the ratio between ORES Assets' equity and the regulated asset (RAB, regulated asset base). On this point, ORES Assets' articles of association mention the fact that a ratio of 33% equity in relation to the RAB must be maintained, as well as a ratio of 30% equity in relation to the balance sheet total (calculated on the basis of the statutory accounts drawn up in accordance with Belgian accounting standards). As of 1 January 2019, again within the context of optimising equity and the new dividend policy introduced after the new 2019-2023 tariff methodology came into force, only the ratio of 30% equity in relation to the balance sheet total (calculated on the basis of the statutory accounts drawn up in accordance with Belgian accounting standards) is maintained in the articles of association.

# 3. Accounting policies

## A. Main accounting policies

The main accounting policies used by the Group to prepare its consolidated financial statements are described below.

### A.1. Basis of preparation

#### A.1.1. Statement of compliance

The consolidated accounts include the Group's consolidated financial statements for the year ending on 31 December 2018. The Group's consolidated financial statements have been prepared on a voluntary basis and in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union.

The consolidated financial statements have been prepared on a historical cost basis, apart from derivative financial instruments which are valued at their fair value.

#### A.1.2. Functional and presentation currency

The consolidated financial statements are expressed in thousands of Euros. The Euro is the functional currency (currency of the economic environment in which the Group 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 ending on 31 December 2018.

New standards and interpretations applicable for the annual period starting on or after 1 January 2018

- IFRS 9 - financial instruments and associated amendments (applicable for the annual periods starting on or after 1 January 2018);
- IFRS 15 - revenue from ordinary activities generated by contracts with clients (applicable for the annual periods starting on or after 1 January 2018);
- clarification to IFRS 15 - revenue from ordinary activities generated by contracts with clients (applicable for the annual periods starting on or after 1 January 2018);
- improvements to IFRS (2014-2016) - amendments to IFRS 1 and IAS 28 (applicable for the annual periods starting on or after 1 January 2018).

Standards and interpretations issued but not yet applicable for the annual period starting on or after 1 January 2018

- IFRS 16 - lease contracts (applicable for the annual periods starting on or after 1 January 2019);
- IFRIC 23 - accounting for uncertainties relating to income tax (applicable for the annual periods starting on or after 1 January 2019);
- improvements to IFRS (2015-2017) - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (applicable for the annual periods starting on or after 1 January 2019, but not yet adopted at European level);
- amendment to IAS 19 on the modification, reduction or liquidation of a system (applicable for the annual periods starting on or after 1 January 2019, but not yet adopted at European level);

- amendments to IFRS 10 and IAS 28 - sale or contribution of assets between the investor and their stake in associated companies or joint ventures (implementation date postponed indefinitely, so adoption at European level has also been postponed);
- amendments to IAS 28 - long-term stakes in associated companies and joint ventures (applicable for the annual periods starting on or after 1 January 2019);
- amendment to IAS 1 and IAS 8 – change to the definition of the word "material" (applicable for the annual periods starting on or after 1 January 2020, but not yet adopted at European level);
- IFRS 14 - regulatory deferral accounts (applicable for the annual periods starting on or after 1 January 2016, but not yet adopted at European level);

Regarding the application of IFRS 15 – revenue from ordinary activities generated by contracts with clients - in force since 1 January 2018, the Group has chosen to apply the standard retrospectively by recording the cumulative effect of the original application of the standard as an adjustment to the opening balance of retained profit as at 1 January 2018. The application of this standard had no significant effect on the Group's opening balance sheet as at 1 January 2018.

On the subject of IFRS 9 – financial instruments - also in force on 1 January 2018, replacing IAS 39, the retrospective application of "classifications and valuations of financial instrument" section has resulted in the Group reclassifying financial assets available to sale as financial assets recorded at their fair value via the profit and loss statement (see note 11 on this subject). IFRS 9 has had no impact on the valuation of these financial assets or on the hedging relationships referred to earlier. In contrast, following on from the application of the ECL method (Expected Credit losses) as opposed to the current method recommended by IAS 39, in other words credit losses incurred, their impact on our write-downs connected to trade receivables was €9 million for 2018 (see note 12 on this subject).

Lastly, in terms of the application of IFRS 16 – lease contract, in force on 1 January 2019, the analysis of its impact on the 2019 consolidated financial statements has largely been finalised, resulting in the Group recording tangible fixed assets worth €11.8 million offsetting financial debts. This will also result in an increase to impairment expenses estimated at €2.3 million and our financial expenses for a total of €0.2 million, still offset by a reduction in other operating expenses of €5.5 million.

Apart from IFRS 16, the Group is not expecting any significant impact from the application of new standards or interpretations.

## A.3. Consolidation principles

The eight mixed Walloon intermunicipal companies merged on 31 December 2013, with retroactive effect on 1 January 2013, giving rise to ORES Assets scrl (hereinafter referred to as "DSO" or ORES Assets). So ORES Assets is a gas and electricity distribution system operator (hereinafter referred to as DSO) in Wallonia which, as at 31 December 2018, has exclusive control over its only subsidiary, ORES scrl. In order to prepare the Group's consolidated financial statements, ORES Assets has therefore fully consolidated its subsidiary.

The Group's consolidated financial statements include all of the financial statements for the entities that it controls (its subsidiaries). According to IFRS 10, three cumulative conditions need to be fulfilled in order to have control over an entity:

- the Group has power over the entity in question;
- it is exposed, or has rights, to variable returns from its involvement with the entity;
- it has the capacity to use its power over the entity to allocate the entity's total returns.

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

Subsidiaries are entities controlled by the Group, and are fully consolidated from the moment that the existence of control has been established and until this control comes to an end.

Associated companies are companies over which the Group exercises significant influence, but that it does not control. They are consolidated according to the equity method from the date on which the significant influence is established and until this influence ends.

A joint venture is a separate entity over which the parties that have joint control over the entity have rights to the entity's net assets. They are consolidated according to the equity method from the date on which the joint control is established and until this joint control ends.

Intragroup balances and transactions, as well as any profits resulting from intragroup transactions, are totally eliminated during the consolidation process for preparing financial statements.

### A.4. Business combinations and premiums

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. The premium represents the difference between the acquisition cost plus any minority interests and the fair value of the acquired net asset. The premium is allocated to cash generating units and is not amortised, but is the subject of an impairment test at the end of each reporting period.

### A.5. Intangible fixed assets

Intangible fixed assets are accounted for if and only if it is probable that the future economic advantages attributable to the assets will go to the Group and if the cost of these assets can be valued reliably.

Intangible fixed assets are initially valued at their cost. The cost of an intangible fixed asset generated internally is equal to the sum of the expenses incurred from the date on which this intangible fixed asset fulfils the accounting criteria stipulated by IAS 38. It includes all directly attributable costs needed to create, produce and prepare the fixed asset for which it can be used as intended by management. If an intangible asset is acquired within the context of a business combination in accordance with IFRS 3, the cost of this intangible asset is measured at its fair value on the acquisition date.

After they are first accounted for, intangible fixed assets are accounted for at their cost less total amortisation and total impairments. Intangible fixed assets are amortised according to the straight-line method over the estimated useful life of the asset.

Amortisation begins when the asset is operational as intended by management.

| | Useful life |
|---|---|
| Computer software | 5 years |
| Development | 5 years |

#### A.5.1. Computer software

Software licences acquired by the Group are recorded at their acquisition cost, less accumulated amortisation and accumulated impairment losses. Software developed internally is recorded at its cost plus development fees if the criteria stipulated by IAS 38 are met.

#### A.5.2. Research and development costs

Research costs, if they occur, are recorded as expenses in the period during which they were incurred. Development costs are recorded as assets when the criteria for recognising an intangible fixed asset defined by IAS 38 are met. An intangible asset that comes from the development activity is then amortised using the straight-line method over its useful life and reduced by any impairments.

## A.6. Tangible fixed assets

As a general rule, the Group is the owner of tangible fixed assets including network installations, buildings, land, vehicles (fleet) and tools.

Tangible fixed assets are initially accounted for as assets at their acquisition or production cost if and only if it is probable that the future economic advantages associated with this element will go to the Group and if the cost of these assets can be valued reliably. The cost of a tangible fixed asset includes its purchase or production price, any cost directly attributable to moving the asset to where it is going to be used and making sure it is operational, as well as the initial estimate of costs relating to dismantling and removing the asset and returning the site at which it is based to its original state, as required.

Transfers of assets from customers related to connections to the network are not deducted from the value of the tangible fixed assets to which they relate but are included in the turnover in accordance with IFRS 15.

After they are first accounted for at their historic cost, tangible fixed assets owned by the Group are depreciated on the basis of the straight-line method and included on the balance sheet at their cost less total depreciation and impairments. Depreciation of a tangible asset begins when the asset is at the location and in the state needed for it to be used as intended by management. The components of a tangible fixed asset with high costs and different useful lifespans are accounted for separately. Land is not depreciated.

At the end of each reporting period, the Group disposes of the tangible fixed assets that are no longer in use. The book value of tangible fixed assets that have been disposed of is then derecognised.

Since 2003, at the same rhythm that the electricity and natural gas markets have been liberalised, the intermunicipal companies active in these areas have refocused their activities, essentially on the role of electricity and gas distribution system operator, a monopolistic activity for which there is a regulatory framework made up mainly of tariff methodologies.

Combined electricity and gas distribution system operators (which became ORES Assets scrl in 2013) with a technical inventory justifying the value of the tangible fixed assets could establish the initial value of the capital invested as at 31 December 2002 based on the economic value of this inventory. The initial values were formally approved by the competent regulator and then confirmed in 2007 on the basis of the values as at 31 December 2005 for electricity and 31 December 2006 for natural gas. The capital gain recorded is the difference between the value of the IRAB as approved by the regulator and the book value of the tangible 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 year, and therefore the tariffs applicable to a given regulatory period. A full description of the regulation mechanism can be found in chapter A.15 below.

The depreciation rates used by the Group have been defined in the tariff methodology approved by the CWaPE. These rates reflect a good estimate of the useful life of tangible fixed assets for the sector in which the Group is evolving. The residual value is always assumed to be zero at the end of the useful life of a tangible fixed asset. The table below provides details of the depreciation rates:

| Tangible fixed assets | Depreciation rate |
|---|---|
| Land | 0% |
| Industrial buildings | 3% (33 years) |
| Administrative buildings | 2% (50 years) |
| Gas pipes | 2% (50 years) |
| Cables | 2% (50 years) |
| Lines | 2% (50 years) |
| Fibre optic cable sheath signalling network | 4% (25 years) |
| Poles and cabins (electricity and gas) | 3% (33 years) |
| Connections - transformers | 3% (33 years) |
| Connections – lines and cables | 2% (50 years) |
| Measuring equipment | 3% (33 years) |
| Electronic meters, budget meters, automatic meters | 10% (10 years) |
| Low-voltage Smart electric meters | 6.67% (15 years) |
| Low pressure Smart gas meters | 6.67% (15 years) |
| Signalling network (Smart equipment) | 10% (10 years) |
| Remote control, lab and dispatching equipment | 10% (10 years) |
| Teletransmission and fibre optics | 10% (10 years) |
| Furniture and tooling | 10% (10 years) |
| Vehicles (to transport people and goods) | 20% (5 years) |
| Mobile equipment | 10% (10 years) |
| Administrative equipment (IT equipment) | 33% (3 years) |

## A.7. Impairment of assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may have suffered an impairment loss. If there are any such indications, the Group then estimates the recoverable value of the asset. An asset is impaired when its book value is higher than its recoverable value. The recoverable value of an asset or a cash generating unit (CGU) is either its fair value less sale costs or its value in use, whichever is higher. If it is not possible to estimate the recoverable value of an individual asset, the Group takes the recoverable value of the CGU to which the asset belongs.

Cash generating units are defined as groups of assets that generate cash flows that are predominantly independent from other groups of assets. As the Group is organised into seven operating segments with a distinction between electricity and gas within these, the Group has defined these CGUs as the assets and liabilities of an operating segment for a given energy (electricity or gas).

The Group tests the premium impairment annually. Within this context, the premium has been allocated to the CGUs on a consistent basis, with the key for distributing the costs incurred by ORES scrl between the segments by energy (based on connection points or EANs).

At the end of each reporting period, the Group assesses whether there are any indications that an impairment recorded during previous periods for an asset other than a premium may no longer exist or have decreased. If there are any such indications, the Group estimates the recoverable value of the asset. If the new book value of this asset is higher due to the reversal of an impairment, it cannot be higher than the book value that would have been calculated, net of amortisation, if no impairment had been recorded for that asset during previous years. Impairment losses on the premium are never reversed.

## A.8. Lease contracts

Lease contracts are classified as finance leases if they transfer almost all of the risks and benefits inherent in the ownership of an asset to the lessee. All other lease contracts are classified as operating leases. Contracts that do not take the legal form of a lease contract are analysed with reference to IFRIC 4 – determining whether an arrangement contains a lease in order to determine whether they contain a lease contract to be recorded in accordance with IAS 17 – leases.

### A.8.1. Finance lease contracts

Assets held by the Group by virtue of finance leases are recorded as assets and liabilities in the statement of financial position for total amounts equal to the fair value of the leased item or, if lower, the discounted value of the minimum lease payments. Assets held under finance leases are depreciated over their expected useful life on the same basis as assets that are owned or, if shorter, over the lease period.

Lease payments are distributed between interest expenses on the one hand, and depreciation of the finance lease debt on the other hand.

Assets owned by the Group and leased to third parties under finance lease contracts are derecognised and a finance lease receivable is recorded under assets on the balance sheet for a total amount equal to the net investment in the lease contract. Financial income is recorded on the basis of a formula reflecting a constant periodic rate of return on the net investment of the lessor in the finance lease contract.

### A.8.2. Operating lease contracts

Assets leased by the Group under operating lease contracts are not recorded on the balance sheet. Operating lease payments are recorded as expenses, in the period during which they are incurred, on a straight-line basis over the duration of the lease contract, unless another systematic basis is more representative of the way in which the economic benefits of the leased item are broken down over time.

Assets owned by the Group and leased to third parties under operating lease contracts are shown on the balance sheet as tangible or intangible fixed assets. Lease income is recorded as income using the straight-line method for the duration of the lease contract. The depreciation method used for leased assets is consistent with the method used for similar assets.

## A.9. Inventories

Inventories are valued at their cost or their net realisable value, whichever is lower. The cost of inventories includes the purchase, processing and other costs incurred to bring them to their current location and condition. The net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs for completion and the estimated costs needed to finalise the sale. The value of inventories is also determined by applying the weighted average cost method.

## A.10. Financial instruments

As of 1 January 2018, the financial instruments held by the Group have been recorded and valued in accordance with IFRS 9 – financial instruments. The transitional provisions of the standard allow an entity not to re-process comparative data. The Group has taken this option.

IFRS 9 includes new requirements in terms of:

- classifying and valuing financial assets and liabilities;
- the impairment of financial assets;
- general hedge accounting.

As indicated above, the retrospective application of the "classifications and valuations of financial instrument" section has resulted in the Group reclassifying financial assets available for sale as financial assets recorded at their fair value via the profit and loss statement (see note 11 on this subject). IFRS 9 has had no impact on the valuation of these financial assets or on the hedging relationships referred to earlier.

In contrast, in terms of depreciation on financial assets following on from the application of the ECL method (Expected Credit losses) as opposed to the current method recommended by IAS 39, in other words credit losses incurred, their impact on our write-downs connected to trade receivables was €9 million for 2018.

The Group does not have any derivatives for speculative purposes. In fact, the Group only uses financial instruments for economic hedging purposes.

### A.10.1. Cash and cash equivalents

Cash and cash equivalents include cash available from banks and cash on hand, as well as deposits with an initial maturity of no more than three months.

All bank balances are regarded as entailing a low credit risk at the end of each reporting period, as they are held with reputable national banking institutions. As a result of this, no depreciation is recorded for these financial assets.

### A.10.2 Financial assets at their amortised cost

These are financial assets with fixed or determinable payments that are not listed on an active market, and are initially recorded at their fair value, which in most cases corresponds to their nominal value, plus transaction costs. After they are recorded for the first time, these financial assets are valued at their amortised cost using the effective interest rate, less reductions for any expected impairment.

As mentioned above, IFRS 9 stipulates that companies should follow the expected credit loss model rather than the IAS 39 actual credit loss model. According to this new model, the Group has to record expected credit losses and changes to these losses at the end of each reporting period in order to take into account the credit risk from the first time these financial assets are recorded.

More specifically, this method has been applied to receivables linked to distribution, public service obligations, fraud and construction work. Expected credit losses are estimated using a provision matrix, drawn up according to the type of receivable, previous experience of defaulting debtors and an analysis of their current situation. Following this analysis, an expected credit loss rate is estimated and applied to each bracket defined by the Group. When payments are more than 720 days late, receivables are written down at 100%, as past experience shows that these receivables cannot usually be recovered. The results of this analysis can be found in note 12 of the annual report.

For other financial assets, the Group feels that the credit risk had not risen significantly since they were first recorded, as allowed by IFRS 9; as a result, it has recorded expected credit losses for the next twelve months for these assets.

The additional value adjustment for credit loss at the end of 2018 following on from the application of this method is €6.7 million, less the impact of the associated deferred tax.

We should point out that there are no write-downs for liabilities related to "network damage" less than two years old, or for outstanding debts to municipalities, as the Group feels that the credit risk is very low, or even non-existent before two years.

Profits and losses are recorded in the profit and loss statement when a financial asset recorded at its 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 liability and of allocating financial income or expenses over the relevant period. The effective interest rate is the rate that precisely discounts estimated future cash inflows or outflows over the expected life of the financial instrument or, where appropriate, a shorter period so as to determine the net book value for the financial asset liability.

### A.10.4. Borrowings

The Group is financed through conventional loans and commercial papers or bonds. Loans taken out by the Group constitute financial liabilities that are initially valued at their fair value, less transaction costs. These financial liabilities are subsequently valued at their amortised cost, calculated using the effective interest rate method less capital repayments. Interest expenses are recorded according to the effective interest rate. The costs associated with issuing commercial papers or bonds are recorded less the debt on the issue date, and are taken into account when calculating the effective interest rate in order to recoup the debt.

### A.10.5. Derivative financial instruments

The Group uses derivatives such as interest rate swaps (over 5 and 10 years), collars and interest rate caps, in order to cover its exposure to the interest rate risk arising from its operational, financing and investment activities.

The way derivative financial instruments are accounted for depends on whether or not they are hedging instruments, as well as the type of hedge. Initially, derivatives are recorded at their fair value on the date on which the derivative contract is taken out, and subsequently revalued at their fair value at the end of the reporting period. Profits or losses arising from the application of the fair value are immediately recorded as profit/loss, unless the derivative is designated as a hedging instrument and it fulfils the eligibility criteria for hedging.

Derivative financial instruments are recorded as financial assets if their value is positive, and as financial liabilities if their value is negative. Derivatives due to mature in more than 12 months are generally included under the non-current section on the balance sheet, while the other derivatives are included under the current section on the balance sheet.

### A.10.6. Hedge accounting

The Group applies cash flow hedge accounting in order to hedge its exposure to variations in the cash flow attributable to a particular risk connected to a recognised asset or liability, a fixed commitment or a planned transaction that is highly likely to have an influence on the profit and loss statement. Certain derivative financial instruments are thus designated as cash flow hedge instruments. Hedge accounting for variations in the fair value has not been applied in this case.

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

In accordance with IFRS 9, the Group has applied the provisions of IFRS 9 relating to hedge accounting prospectively, as of the date it is first applied on 1 January 2018. The eligible hedge relationships put in place by the Group on 1 January 2018 are also eligible for hedge accounting according to IFRS 9 and are therefore regarded as ongoing hedge relationships. As the essential conditions for hedge instruments and hedged elements are the same, all the hedge relationships continue to be effective according to the provisions of IFRS 9 relating to assessing the effectiveness of the hedge. As a result, the application of these provisions has had no impact on the Group's financial results and situation for the year in question and previous years.

In accordance with IFRS 9, the hedge relationship must be formally designated and documented. In particular, the documentation must indicate the link between the hedge relationship and the entity's strategy for managing financial risks, the expected relationship between the risk and the hedging instrument, the hedged position, the nature of the risk hedged and the technique used to assess the effectiveness of the hedge. The hedge relationship fulfils all the hedge effectiveness restrictions if there is (i) an economic link between the hedged element and the hedging instrument, (ii) the credit risk does not have a dominant effect on variations in the value resulting from this economic link and (iii) the hedge ratio of the hedge relationship is the same as the relationship between the quantity of the hedged element that is really hedged by the Group and the quantity of the hedge instrument that the Group really uses to hedge this quantity of the hedged element.

For the effective portion of a cash flow hedge, the variation in the value of the hedging instrument is recorded directly under other comprehensive income (equity). The ineffective portion of the hedge is recorded immediately in the profit and loss statement.

Hedge accounting comes to an end when the Group revokes the hedge relationship, when the hedging instrument matures or is sold, terminated, or exercised, or when it no longer fulfils the effectiveness restriction for hedging relating to the hedging ratio. Any cumulative profit or loss on the equity at this time continues to be deferred in the equity and is recorded in the profit and loss statement when the expected transaction is recognised in the profit and loss statement. If the expected transaction is no longer expected to be completed, the cumulative profit or loss that had been deferred in the equity is immediately recorded in the profit and loss statement. This is a reclassification adjustment (see IAS 1).

### A.10.7. Financial assets valued at their fair value through the net profit and loss statement (previously available to sell)

Financial assets valued at their fair value through the net profit and loss statement (previously available to sell) include shareholdings in companies that are not consolidated or accounted for according to the equity method. These financial assets are valued at their fair value, and any resulting variation is accounted for immediately in the net profit and loss statement. If the fair value of a financial asset valued at their fair value cannot be determined reliable, valuation at cost may be used. This last option is the one used by the group of all of its financial assets.

## A.11. Employee benefits

The Group offers its employees various short- and long-term benefits, as well as post-employment benefits, in accordance with the applicable legislation in Belgium.

### A.11.1. Short-term benefits

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

### A.11.2. Post-employment benefits

Post-employment benefits are divided into 2 categories, defined benefits plans and defined contribution plans.

Defined contribution plans are valued and recorded according to the "intrinsic value" method. This method involves calculating the minimum guaranteed reserve on the last day of the reporting period, for each member of the plan separately (taking into account the new minimum rate stipulated by legislation) as well as the mathematical reserve. The guaranteed reserve is equal to the minimum guaranteed reserved and the mathematical reserve, whichever is higher.

If the guaranteed reserve is higher than the mathematical reserve, there is a deficit. Any deficit must be covered by the employer and an adequate provision must be recorded in the consolidated financial statements.

Contributions paid by virtue of defined contribution pension plans are recorded as an expense when the employees have rendered services entitling them to these contributions.

As far as defined pension benefit plans are concerned, the total amount recorded as a net liability (asset) as defined benefits corresponds to the difference between the discounted value of the obligation and the fair value of the plan assets.

If the calculation of the net obligation results in a surplus for the Group, the asset recorded for this surplus is limited to the discounted value of the repayments available or reductions in future contributions to the plan.

The cost of defined benefits includes the following components: the cost of services and net interest on the net liability (asset) recorded under the net profit/loss (under employee costs for the cost of services, and under financial expenses (or financial income) for net interest respectively), as well as the revaluations of the net liability (asset) recorded under other comprehensive income.

The discounted value of the obligation and the cost of services are determined using the projected unit credit method and actuarial valuations are carried out at the end of each reporting period.

The actuarial calculation method involves the use and formulation by the Group of actuarial hypotheses such as the discount rate, increases to salaries and medical costs, staff turnaround and mortality tables. These actuarial hypotheses are the best estimates of variables that will determine the final cost of the post-employment benefits. The discount rate reflects the rate of return on high quality corporate bonds whose terms correspond to the estimated term of the post-employment benefit obligations.

### A.11.3. Other long-term benefits

Other long-term benefits are accounted for in a similar way to post-employment benefits, apart from the fact that revaluations of the net liability (asset) are accounted for in the profit and loss statement instead of being recorded under other comprehensive income.

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

## A.12. Provisions

A provision is recorded when the Group has a current (legal or implicit) obligation at the end of the reporting period, resulting from past events or transactions, it is probable that this obligation will result in an outflow of resources and it must be possible to estimate the total value of this obligation reliably. The amount recognised as a provision is the best estimate of the total needed to settle the obligation. Provisions with a term of over 12 months are discounted if the effect of discounting is material. Provisions established by the Group mainly relate to litigation and risks related to the clean-up of polluted sites.

### A.12.1. Environmental liabilities

The Group regularly analyses all of its environmental risks and corresponding provisions. The main environmental risks are connected to sites with a certain level of pollution. The total provisions established to cover these risks are based on the best estimate of costs yet to be incurred, both in terms of studies and in terms of cleaning up the sites in question, based on valuations by independent experts. The Group calculates these provisions to the best of its knowledge of the applicable laws and regulations depending on the scope of the pollution and the environmental impact studies to be carried out.

## A.13. Borrowing costs

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (asset requiring a long preparation period before it can be used) are included in the cost of this asset. All other borrowing costs are accounted for in the profit and loss statement for the period during which they are incurred.

## A.14. Financial income and expenses

Financial expenses include interest to pay on loans and financial debts calculated using the effective interest rate method, as well as increases to provisions following the unwinding of discounts over time.

Financial income includes interest income on investments, accounted for using the effective interest rate method, as well as dividends, accounted for when the Group has an established right to receive these payments.

Changes to the fair value of derivative financial instruments held by the Group that are not defined within the context of an hedge accounting relationship are shown as financial expenses or income.

## A.15. Income recognition

### A.15.1. Changes to the regulatory context 2017-2018

The legislative framework

Since 1 July 2014, the CWaPE has had full authority over public distribution tariffs for natural gas and electricity; until then it was the federal regulator (the CREG) that had this authority. Exercising this authority over tariffs mainly involves the Walloon Regulator approving or modifying the tariff methodology, as well as the distribution tariffs, or making decisions relating to regulatory balances.

To begin with, for a transition period designed to guarantee continuity within the federal regulatory context, the decree tariff provisions governing the exercising of the CWaPE's authority over tariffs were taken on by the (federal) law of 8 January 2012 and adopted via the decree of 11 April 2014. The second step, in 2015, involved work starting on the establishment of a tariff regulatory framework specific to the Walloon Region. The tariff decree was adopted on 19 January 2017.

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

Transitional tariff period: from 2015 to 2018

Acting on the basis of the transitional tariff provisions of the decree of 11 April 2014, the CWaPE was keen to adopt tariff methodologies initially for 2015 and 2016 very broadly in line with the tariff methodologies used as a basis for the CREG to approve tariffs (regulatory period 2009-2012 extended to 2014). When the tariff decree was not adopted in 2016, the CWaPE decided to carry on using the transitional tariff methodology, for the 2015-2016 regulatory period, for the 2017 tariff methodology. For the 2018 tax year, as the tariff decree was only adopted on 19 January 2017, the tariff methodology developed on the basis of 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 1 December 2017 to extend the 2017 tariffs in 2018.

A new multi-year tariff methodology for 2019-2023

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

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

Firstly, more than in the current transitional methodology, the CWaPE wanted to incentivise network operators to manage their costs in terms of their traditional network management and investment activities. To do this, it decided to extend the manageable cost base, establish 5-year regulatory periods and implement a revenue cap system, combined with an annual productivity improvement "X factor".

Alongside this, via specific additional budgets (not subject to the "X factor"), it plans to incentivise network operators to take part in or embark on research and development projects and roll out innovative solutions. To this end, via a positive business plan, it provides the possibility of having specific budgets for the rollout of smart meters and to promote natural gas in Wallonia.

With this in mind, the CWaPE organised a consultation process with the DSOs and a formal public consultation process running from 31 March 2017 to 19 May 2017. ORES, as well as the other Walloon DSOs and different market players, took part in these two consultation processes. Following on from this consultation, the new tariff methodology was adopted on 17 July 2017 by the CWaPE.

During the course of 2018, there were many discussions between the CWaPE and the teams at ORES in order to present, justify, explain and argue for elements of the proposals for authorised income for 2019-2023 submitted on 29 December 2017. Despite an initial rejection by the CWaPE on 31 May 2018 for essentially technical reasons, this constructive dialogue meant that ORES was able to submit an adapted version of the proposals for authorised income less than a month later. At the beginning of July, this adapted version was approved by the CWaPE, who found that it fulfilled its requirements. The regulator's Management Committee approved it on 28 August 2018. Given this favourable decision, at the end of July 2018 ORES withdrew its appeal submitted to the Liège Court of Appeal against the 2019-2023 tariff methodology adopted by the CWaPE on 17 July 2017.

On 1 October 2018, ORES submitted the first version of its electricity and gas tariff proposals for 2019-2023. The tariff proposals were analysed by the CWaPE and subjected to additional questions for the distribution system operator.

On 30 November 2018, ORES submitted its answers to the additional questions. On 13 December 2018, 15 January 2019 and 25 January 2019, ORES submitted its adapted tariff proposals for the 2019-2023 regulatory period. On 7 February 2019 (for the periodic tariffs) and 20 February 2019 (for the non-periodic tariffs), the CWaPE approved the electricity and gas tariffs proposed by ORES. The new distribution tariffs for 2019-2023 will come into effect on 1 March 2019.

For reference, on 17 January 2019, the distribution system operators submitted a joint tariff proposal for reinvoicing transport costs. These tariffs, fixed at exactly the same level across Wallonia, were also approved by the CWaPE on 7 February 2019.

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

Drawing on the tariff methodologies previously applied by the CREG until the end of 2014, the transitional system stipulates that the total income of a DSO must include the following three elements:

- the reimbursement of all management costs deemed reasonable to perform the duties of a DSO during the regulatory period, including those connected to public service obligations;
- a fair profit margin for the capital invested in DSOs and amortisation expenses;
- the surcharges to include in the tariffs.

As was the case with the tariff methodology applied by the CREG until the end of 2014, the CWaPE distinguishes between "manageable" and "non-manageable" costs. All the costs over which the DSO has direct control are regarded as "manageable costs"; the costs over which the DSO has no direct control are regarded as "non-manageable costs". The following costs, among others, are regarded as "non-manageable" costs: certain specific operating costs such as those relating to public service obligations, depreciation, costs incurred to transport electricity (namely the costs invoiced by Elia to take energy from their transport network to connection points on distribution networks), the costs associated with compensation for network losses, financial expenses, fair remuneration of invested capital and amounts carried forward from previous accounting periods. "Manageable" costs are subject to a cap (see below) and an incentive mechanism. Balances on these costs cannot be recovered in future years. "Non-manageable" costs are budgeted for by the DSOs on the basis of best estimates. They are subject to a cost-plus mechanism. The balances on these costs can be incorporated into future tariffs.

Regulated assets

In order to calculate the DSO's fair profit margin, a regulated asset value – corresponding to the value of the DSO's regulated fixed asset (the RAB or regulated asset base) – must be defined.

Three distinctions in relation to the methodology applied by the CREG until the end of 2014 were added to the CWaPE's transitional tariff methodologies.

Firstly, the regulated assets acquired before 1 January 2014 are included under "primary" regulated assets while those acquired after the 1 January 2014 are included under "secondary" regulated assets.

Secondly, the CWaPE authorised the DSOs to include computer software in their secondary regulated assets, as it is essential to the smooth running of the DSOs.

Lastly, unlike the tariff methodology applied by the CREG until the end of 2014, the RAB taken into account to calculate the remuneration of invested capital no longer takes into account the need for net working capital.

Return percentage

In terms of financing structure, the CWaPE maintained the theoretical financing structure recommended by the CREG, in other words 33% equity and 67% borrowed funds; the excess part of the 33% equity has a lower rate of return.

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 transitional tariff methodology, calculated according to the following formula:

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

where:

- market risk premium = 3.50%;
- ß = Beta = 0.65 for electricity and 0.85 for gas;
- illiquidity factor = 1.2 (if the DSO is not listed on the stock exchange);
- risk-free interest rate: varies according to the tariff methodology applied. This may be the actual average yield rate on 10-year Belgian State linear Bonds on the secondary market issued during the year in question (applied to the secondary regulated asset) or issued during 2013 (applied to the primary regulated asset).

In the CWaPE's transitional tariff methodologies, this formula is applied differently according to whether the primary RAB is used, to which the primary percentage is applied, or the secondary RAB is used, to which the secondary percentage 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 how this percentage is calculated can be found below. Nevertheless, the value of the ratio of equity to RAB is set individually for each DSO according to its balance sheet structure as at 31 December 2013 and will not be revalued during the regulatory period. In addition, the value of the risk-free interest rate is fixed at the arithmetic value of the average return from OLO bonds with a ten-year maturity, issued in 2013. The return percentage thus defined ex ante is fixed and will not be recalculated during the tariff period.

Return applied to the regulated secondary regulated asset

This return is also calculated on the basis of the formula provided below. The difference in relation to the primary return percentage is that the value of the risk-free interest is calculated ex-ante on the basis of forecast values, including that of the return from ten-year OLO obligations as published by the Federal Planning Bureau.

This value will then be revised annually ex-post on the basis of the actual value of the parameters, including the arithmetic value of the average return from OLO bonds with a ten-year maturity, issued during the year in question. For the transitional regulatory period, an extra 100 basis points are added to the value of the secondary yield percentage obtained. The actual fair profit margin of the secondary RAB will therefore be revalued, during the course of each year in the regulatory period, on the basis of adjustments made to the RAB and the financial structure as well as the average risk-free interest rate of 10-year OLOs for the year in question.

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

The fair margin determined using the transitional tariff methodology (CWaPE method) may be lower than the fair margin determined by applying the CREG tariff methodology. In order to deal with this, and to prevent the DSO's shareholders from suffering any losses, the transitional tariff methodology gives DSOs a guarantee that any difference between the two fair margins will be incorporated in the tariffs. As the secondary regulated asset increases, this difference between the fair margins should go down and then disappear after a few years.

Incentive-based regulation mechanism

The tariff methodology includes an incentive-based mechanism (incentives or penalties) that encourages DSOs to act more productively and efficiently. For the transitional tariff periods, this mechanism took the form of limiting manageable costs to the actual 2012 indexed costs. In fact, at the end of the 2009-2012 regulatory period, it appeared that the budgets put together in 2008 no longer reflected the reality of DSOs' manageable costs. As a result, the CWaPE's transitional tariff methodology sets the threshold for manageable costs on the basis of the actual manageable costs in 2012, corrected to take inflation into account.

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

- the first to cover additional (transitional) costs incurred by setting up the new federal clearing house developed by Atrias.
- the second to cover investments in smart grids/meters. Ex-post, the DSO must demonstrate that it has allocated a total amount to these new investments equal to or higher than the adjusted threshold granted ex-ante.

In addition, in order to promote natural gas and maximise its profitability, an adjustment to the threshold of manageable costs has been granted to ORES Assets on the basis of a profitable multi-year business case.

Tariff balances

The transitional tariff methodologies stipulate that the balances relating to non-manageable costs should be fully included in the tariffs and so should be charged to or benefit the users of the network.

The transitional tariff methodologies also allow DSOs to start gradually recovering the balances related to non-manageable costs and past volumes (2008 to 2014) via a down payment, starting in 2015. For the 2015 and 2016 budgets, this annual down payment corresponds to one tenth of the combined total tariff balances relating to the 2008-2013 financial years. For the 2017 and 2018 budgets, it is 20% of the combined total tariff balances relating to the 2008-2014 financial years.

Thanks to these provisions, ORES Assets was able to recover some of the combined tariff balances at the end of 2014 for a total of €53 million, all fluids combined (on this point, see note 01 B of the consolidated IFRS financial statements).

The balances for 2015 and 2016 as well as those for the two later years will gradually be incorporated during the 2019-2023 period.

Applicable tariffs in 2017 and 2018

The 2017 tariffs applicable to ORES Assets' Walloon municipalities were approved by the CWaPE on 15 December 2016 and came into force on 1 January 2017.

On 16 January 2017, the electricity distribution system operators working in the Walloon Region submitted tariffs for reinvoicing the costs of using the transport network and surcharges for 2017 to the CWaPE. The CWaPE Management Committee approved these tariffs on 9 February 2017. They came into force on 1 March 2017.

On 1 December 2017, the CWaPE adopted decisions relating to extending the electricity and gas distribution tariffs in force as at 31 December 2017 until 31 December 2018 inclusive. In addition, due to the absence of a specific tariff methodology for the 2018 regulatory period, the CWaPE also adopted the tariff principles that would apply during the 2018 operating year.

Lastly, the CWaPE also decided that the tariffs for reinvoicing the costs of using the transport network in force as at 31 December 2017 will continue to apply until 28 February 2018 inclusive. In fact, on 15 January 2018, the distribution system operators submitted tariffs for reinvoicing the costs of using the transport network and surcharges for 2018 to the CWaPE. These new tariffs for reinvoicing the costs of using the transport network came into force on 1 March 2018.

### A.15.2. Turnover

During the course of 2018, the Group applied IFRS 15 which has introduced a method for accounting for income from ordinary activities in five stages (see below). The Group has applied this standard according to a retrospective transitional approach by recording the cumulative effect of the original application of the standard as an adjustment to the opening balance of retained profit as at 1 January 2018. This approach also means we do not have to indicate the total transaction price allocated to performance obligations still to be fulfilled, or provide an explanation specifying when the Group expects to record this amount as income from ordinary activities for all periods before the date on which this standard first applied, in other words 1 January 2018. The application of this standard had no significant effect on the Group's opening balance sheet as at 1 January 2018.

Income from ordinary activities generated by the sale of goods must be recorded according to IFRS 15 when it has fulfilled all of the following criteria:

- the parties to the contract have approved it and are committed to fulfilling their obligations;
- the Group can identify the rights of each party as far as the goods or services to be supplied are concerned;
- the Group can identify the expected payment conditions for the goods or services to be supplied;
- the contract has commercial substance;
- it is probable that the Group will recover the compensation to which it is entitled in exchange for the goods or services that it will supply to the client.

Income from ordinary activities is valued according to the compensation to which the Group expects to be entitled in a contract agreed with a client, excluding amounts received on behalf of third parties. The Group recognises the revenue as soon as it has transferred control over the goods or services to the client.

The Group's turnover, corresponding to the income from ordinary activities according to IFRS 15, essentially includes income relating to the following activities:

- transmission fees;
- energy sales within the context of pubic service obligations;
- transfer of assets from customers;
- construction contracts.

Transmission fees

The Group's turnover is mainly made up of income and expenses related to the transmission fees for the electricity and gas distribution network. The Group distributes electricity and gas to homes and businesses connected to the network on behalf of energy suppliers. As far as electricity is concerned, the transmission fee also includes the transport fee (reinvoicing the costs of using the transport network, of which Elia is the sole operator). Furthermore, this fee is invoiced by Elia to the Group and is recorded as a cost of sales (cascade principle), resulting, in principle in a neutral impact on the profit and loss statement.

The income and expenses related to transmission fees are recognised as soon as the electricity or gas has been supplied and transported to consumers that are connected to the network during the period in question. The total amounts recognised as income are based on the meter readings and estimates for use of the network where a reading has not been collected (volumes metered or estimated multiplied by the tariff in force approved by the CWaPE).

These estimates are corrected at the year-end with the unmetered transmission fee ("redevance de transit non relevée", RTNR) which is calculated on the basis of the total volumes that have been transmitted through the network. The RTNR has been treated as a contract asset as defined by IFRS 15.

Energy sales within the context of pubic service obligations

The Walloon Government imposes public service obligations (PSOs) on the DSOs which are clearly defined, transparent and non-discriminatory, the fulfilment of which is subject to checks by the regulators (mainly the CWaPE, but also the Creg for supplying protected clients). They involve, among other things, ensuring the supply of electricity to protected clients, as defined by law, at the social tariff, temporarily ensuring supply for end clients who are temporarily without a supply contract or whose contract has been suspended (so-called "supplier X" clients).

The income and expenses related to the sale of energy are recognised as soon as the electricity or gas has been supplied and transported to consumers that are connected to the network during the period in question. The total amounts recognised as income are based on the meter readings and estimates for use of the network where a reading has not been collected (volumes metered or estimated multiplied by the tariff in force approved by the CWaPE).

As far as sales to protected customers are concerned, a social tariff is in force, lower than the market price, and the difference between this tariff and the market price is partly recovered by the DSOs from the regulator (a fund managed by the latter), and partly via the tariffs depending on the type of protected client, which ensures that there is a neutral impact on the profit/loss.

Transfer of assets from customers

The transfer of assets from customers related to the construction of connections or extensions to the network are recorded as a single performance obligation (the provision or installation of equipment) and usually recorded when the connection or network extension is commissioned.

The tariffs for these services are set by the regulator (so-called non-periodic tariffs). They will be balanced out as of 1 January 2019.

Construction contracts

The Group's turnover includes income from construction contracts for various projects such as work on the public lighting system or network maintenance. Where the deadline for a construction contract can be estimated reliably, the income and expenses associated with this contract are accounted for in the profit and loss statement according to the progress of the contract.

The Group records work carried out as a contract asset and the down payments received are recorded as contract liabilities. If payment exceeds the income recorded according to the costs incurred method, the Group records the surplus as a contract liability. Any amount previously recorded as a contract asset is reclassified as a client receivable when it is billed to the client.

The Group feels that there is no significant financing component in the construction contracts entered into with clients as the period between when income is recorded according to the costs incurred method and payment is generally less than a year.

### A.15.3. Tariff balances

The income authorised according to the tariff methodology in force is based on the one hand, on all the costs needed to fulfil the tasks of the DSO and, on the other hand, on the fair margin for the remuneration of the capital invested in the network. The total tariff balance is generated by comparing this authorised income on non-controllable costs and the total amounts recognised as turnover as well as between the actual and forecast transmission volumes. These annual balances (assets or liabilities) must be passed on in the tariffs for subsequent regulatory periods. The annual balances and their impact on future tariffs are subject to approval by the regulator (see point A.15.1 above).

## A.16. Taxes

Tax on income represents the total tax due plus the deferred tax.

### A.16.1. Current tax

The current tax to pay is based on the taxable profit for the year. The taxable profit is different from the "profit before taxes" in the consolidated profit and loss statement or other comprehensive income due to the elements of the income and expenses that are taxable or deductible during other financial years, as well as elements that are never taxable or deductible.

The Group's current tax liability is calculated using the tax rates adopted or virtually adopted at the end of the reporting period.

### A.16.2. Deferred tax

The deferred tax is determined and accounted for according to the accrual method depending on the temporary differences between the book values of assets and liabilities in the consolidated financial statements and the corresponding fiscal values used to calculate taxable profit.

In general, deferred tax liabilities are recorded for all taxable temporary differences. Deferred tax assets are generally recorded for all deductible temporary differences insofar as it is probable that there will be a taxable profit available, against which these deductible temporary differences can be used. These deferred tax assets and liabilities are not recorded if the temporary difference arises from the initial recording of assets and liabilities connected to a transaction (other than a business combination) that has no impact on the taxable profit or the accounting profit. In addition, no deferred tax liability has been recorded on the temporary difference arising from the initial recording of the premium.

Deferred tax liabilities are recognised for all taxable temporary differences associated with shareholdings in subsidiaries, associated companies and joint ventures, except where the Group is able to control the date on which the temporary difference is reversed and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred tax assets arising from deductible temporary differences generated by such interests are only recognised if it is probable that there will be sufficient taxable profits against which to use the benefits of the temporary difference and that the temporary difference will be reabsorbed in the foreseeable future.

The book value of deferred tax assets is revised at the end of each reporting period and reduced if it is no longer probable that sufficient taxable profit will be available to recover all or part of the asset.

Deferred tax assets and liabilities are valued at the tax rates that are expected to apply in the period during which the asset will be realised or the liability settled, based on tax rates (and tax laws) that have been adopted or virtually adopted by the end of the reporting period.

The valuation of deferred tax liabilities and assets reflects the fiscal consequences arising from how the Group plans, at the end of the reporting period, to recover or settle the book value of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and if they relate to income tax collected by the same tax authority, either from the same tax entity, or from different tax entities, but that intend to settle current tax assets and liabilities on the basis of their net value or to realise the tax assets and settle the tax liabilities at the same time.

### A.16.3. Current tax and deferred tax for the financial year

Current tax and deferred tax are recorded in the consolidated profit and loss statement unless they relate to elements that have been recorded under other comprehensive income or directly under equity, in which case the current tax and deferred tax are also recorded under other comprehensive income or directly under equity respectively.

If the current tax or deferred tax arises from the initial recording of a business combination, the tax implications are included in the records for the business combination.

## A.17. Non-current assets held for sale

Non-current assets and groups destined to be transferred are classified as held for sale if it is expected that their book value will be recovered, mainly via a sale rather than ongoing use. This condition is only met when the asset (or group destined to be transferred) is available for immediate sale in its current state, subject only to the usual and customary conditions for selling such an asset (or group destined to be transferred) and its sale is highly probable. The management must be committed to the sale and it must be expected that the sale meets the criteria to be recorded as a sale agreed within one year as of the date on which it is filed.

If the Group is committed to a planned sale involving losing control of a subsidiary, it must classify all the assets and liabilities of this subsidiary as being held for sale when the criteria outlined above have been met, whether or not the Group will keep a non-controlling interest in its former subsidiary after the sale.

If the Group is committed to a planned sale involving the transfer of an interest, or part of an interest, in an associated company or a joint venture, the interest or part of the interest that will be transferred is classified as held for sale when the abovementioned criteria have been met, and the Group stops using the equity method for this part that is classified as held for sale. Any maintained part of an interest in an associated company or a joint venture that cannot be classified as held for sale continues to be recorded according to the equity method.

The Group stops using the equity method at the time of the transfer when this transfer results in the Group losing a significant level of influence over the associated company or joint venture.

After the transfer, the Group must account for the retained interest in the associated company or joint venture in accordance with IFRS 9, unless the retained interest constitutes a shareholding in an associated company or joint venture, in which case the Group applies the equity method (see the accounting policy for shareholdings in associated companies or joint ventures above).

Non-current assets (and groups destined to be transferred) classified as held for sale are valued at whichever is lower, their book value or their fair value less the costs of sale.  Any profit or loss on the revaluation of a non-current asset (or group destined to be transferred) held for sale, apart from discontinued activities, is accounted for directly as soon as it is observed and is included in the profit and loss for the continuing activities.

## B. Main judgements exercised and main estimates used when preparing the consolidated financial statements

Preparing the consolidated financial statements in accordance with IFRS standards requires the use of accounting estimates and also obliges the management to exercise some judgement when applying the Group's accounting policies. The key hypotheses relating to the future and other main sources of uncertainty relating to estimates at the end of the period in which the Group's consolidated financial statements are presented below.

### B.1. Significant estimates applied to the accounting policies

#### B.1.1. Actuarial obligations within the context of pension plans, other post-employment obligations and other long-term benefits

The Group's commitments in terms of pension plans are valued annually by independent actuaries. The management determines the actuarial hypotheses chosen to value these commitments. The Group feels that the hypotheses chosen are appropriate and justified. The actuarial hypotheses chosen by the Group cover the following points:

- discount rate;
- expected salary growth rate;
- average inflation rate;
- staff turnover rate;
- mortality table;
- total tariff benefits;
- total out-patient and hospital costs.

#### B.1.2. Fair value of derivative instruments

The fair value of the derivative instruments held by the Group is calculated on the basis of market values by an external valuation company for swaps, and directly be the Group for caps and collars by financial institutions.

### B.1.3. Valuing provisions

Significant legal disputes are reviewed regularly by the Group's legal department, helped by external advisors if deemed necessary and in consultation with the Group's finance department. These reviews help determine whether provisions need to be set up or existing provisions need to be adjusted. The provisions established for disputes are based on the value of the complaints or the estimated value of the exposure to risk.

In terms of the environment, the valuation of provisions to set up or adjusted is based on studies carried out by independent experts, using estimates of future costs connected to soil remediation.

In all circumstances, the total amount recorded by the Group as a provision corresponds to the best estimate of the expenses required to settle the current obligation on the balance sheet date.

### B.1.4. Impairment tests

The Group carries out an impairment test on the premium every year, as well as impairment tests on cash-generating units for which there are indicators that suggest that the book value could be higher than the recoverable value.

To determine whether an impairment loss needs to be recorded, the value in use of the cash-generating unit needs to be estimated. Calculating the value in use requires management to estimate future cash flow that will be generated by the cash-generating unit (in terms of the premium, by the cash-generating unit to which it has been allocated) and to apply an appropriate discount rate in order to calculate the discount value (see also note 08 in the appendices to the financial statements).

### B.1.5. Volumes distributed

The total amounts recognised as income are based on the meter readings and estimates for use of the network where a reading has not been collected. These estimates are corrected at the year-end with the unmetered transmission fee ("redevance de transit non relevée", RTNR) which is calculated on the basis of the total volumes that have been transmitted through the network.

## B.2. Significant judgements applied to accounting policies

### B.2.1. Measuring the turnover

Transfer 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 this needs to be accounted for as turnover, on the basis of all the relevant facts and circumstances.

The transport fee

In terms of the fee for transporting electricity, invoiced by Elia to the DSO and passed on by the DSO to the energy suppliers (cascade principle), the Group did not regard the transport fee as being separate from the distribution of electricity, and so only one performance obligation could be attached to the transmission fee invoiced by the Group to its customers. The transport fee is therefore an integral part of the transit fee and is recognised as such in the turnover.

### B.2.2. Tariff balances

There are currently no specific IFRS standards covering the accounting of tariff balances in a regulated environment. Discussions are underway within the IASB to create a new standard for regulated assets and liabilities which will clarify the position that companies should take.

With this in mind, in January 2014, the IASB published an interim standard (IFRS 14 – regulatory deferral accounts), only applicable to first-time IFRS adopters. It explicitly allows the recognition of regulated assets and liabilities within the statement of financial position, as long as they are clearly identified. The Group has assumed that these balances will be recovered in the future and are therefore recognised as an asset or a liability. If it turns out that the accounting approach adopted by the Group is no longer in line with future guidelines published by the IASB, future results as well as equity would have to be adjusted.

### B.2.3. Classification of debts/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. The Group has decided that the different categories of shares representing the capital (see note 15 in the appendices to the financial statements) are equity instruments.

### B.2.4. Existence of an obligation within the context of IAS 37

The Group determines whether there is an obligation that could have a negative impact on its financial position on a case by case basis. In fact, the Group regularly reviews ongoing disputes 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 set up for the best estimate of the compensation required to settle the obligation, as the outcome of proceedings cannot be predicted with any certainty.

### B.2.5. Deferred tax

After the programme law of 19 December 2014 was voted in by the Federal Parliament (published in the Moniteur on 29 December 2014), ORES Assets has been subject to corporation tax ("impôt des sociétés") instead of income tax on legal entities ("impôt des personnes morales"), as of the 2016 tax year for 2015 income. Due to this change in fiscal status for the parent company, the Group decided to recognise deferred tax in its consolidated financial statements as of 2014, resulting in the offsetting of the deferred taxes from the subsidiary and the parent company.

## C. Changes to accounting policies, accounting errors and estimates

A change to an accounting policy is only applied if the change is required by a standard or an interpretation or it means that the financial statements provide 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 to an accounting policy is applied retrospectively, unless it is not practical to determine the effects of the change specifically linked to the period or cumulatively. In addition, a change to an accounting policy is not applied retrospectively in the event of a transitional provision specific to the standard or interpretation.

Although particular attention is paid to preparing the Group's financial statement, errors may occur when recording, valuing, presenting or providing information about elements of the financial statements. If necessary, the Group will correct significant errors for a previous period retrospectively in the first financial statements authorised for publication after they have been discovered.

Uncertainties connected to the Group's activities demand the use of estimates within the context of preparing financial statements. The use of estimates is an important part of preparing financial statements and does not call their reliability into question. An estimate is revised if there are changes in the circumstances on which it has been based or when new information becomes available. The revision of an estimate does not concern previous periods and does not constitute the correction of an error.

# 4. Independent auditor's report

RSM

## Ores Assets SCRL

### Rapport du commissaire à l'assemblée générale de la société pour l'exercice clos le 31 décembre 2018 sous référentiel IFRS

Dans le cadre du contrôle légal des comptes consolidés de la société Ores Assets ("la société") et de ses filiales (conjointement "le Groupe"), nous vous présentons notre rapport du commissaire. Celui-ci inclut notre rapport sur les comptes consolidés ainsi que les autres obligations légales et réglementaires. Le tout constitue un ensemble et est inséparable.

Nous avons été nommés en tant que commissaire par l'Assemblée Générale du 23 juin 2016, conformément à la proposition de l'organe de gestion émise sur présentation du Conseil d'Entreprise. Notre mandat de commissaire vient à échéance à la date de l'Assemblée générale délibérant sur les comptes consolidés clôturés au 31 décembre 2018. Nous avons exercé le contrôle légal des comptes consolidés de la société Ores Assets durant trois exercices consécutifs.

**RAPPORT SUR LES COMPTES CONSOLIDÉS**

**Opinion sans réserve**

Nous avons procédé au contrôle légal des comptes consolidés du Groupe, comprenant l'état de la situation financière consolidé au 31 décembre 2018, l'état consolidé du résultat net et des autres éléments du résultat global, l'état consolidé des variations des capitaux propres et un tableau consolidé des flux de trésorerie de l'exercice clos à cette date, ainsi que des notes, contenant un résumé des principales méthodes comptables et d'autres notes explicatives, dont le total de l'état de la situation financière consolidé s'élève à € (000) 4.608.607 et dont l'état consolidé du résultat net et des autres éléments du résultat global se solde par un bénéfice de l'exercice de € (000) 169.766.

À notre avis, les comptes consolidés donnent une image fidèle du patrimoine et de la situation financière consolidée du Groupe au 31 décembre 2018, ainsi que de ses résultats consolidés et de ses flux de trésorerie consolidés pour l'exercice clos à cette date, conformément aux normes internationales d'information financière (IFRS) telles qu'adoptées par l'Union Européenne et aux dispositions légales et réglementaires applicables en Belgique.

**Fondement de l'opinion sans réserve**

Nous avons effectué notre audit selon les Normes internationales d'audit (ISA) telles qu'applicables en Belgique. Les responsabilités qui nous incombent en vertu de ces normes sont plus amplement décrites dans la section « Responsabilités du commissaire relatives à l'audit des comptes consolidés » du présent rapport. Nous nous sommes conformés à toutes les exigences déontologiques qui s'appliquent à l'audit des comptes consolidés en Belgique, en ce compris celles concernant l'indépendance.

Nous avons obtenu de l'organe de gestion et des préposés de la société, les explications et informations requises pour notre audit.

Nous estimons que les éléments probants que nous avons recueillis sont suffisants et appropriés pour fonder notre opinion.

AUDIT | TAX | CONSULTING

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**Responsabilités de l'organe de gestion relatives aux comptes consolidés**

L'organe de gestion est responsable de l'établissement des comptes consolidés donnant une image fidèle conformément aux normes internationales d'information financière (IFRS) telles qu'adoptées par l'Union Européenne et aux dispositions légales et réglementaires applicables en Belgique, ainsi que de la mise en place du contrôle interne qu'il estime nécessaire à l'établissement de comptes consolidés ne comportant pas d'anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs.

Lors de l'établissement des comptes consolidés, il incombe à l'organe de gestion d'évaluer la capacité du Groupe à poursuivre son exploitation, de fournir, le cas échéant, des informations relatives à la continuité d'exploitation et d'appliquer le principe comptable de continuité d'exploitation, sauf si l'organe de gestion a l'intention de mettre le Groupe en liquidation ou de cesser ses activités ou s'il ne peut envisager une autre solution alternative réaliste.

**Responsabilités du commissaire relatives à l'audit des comptes consolidés**

Nos objectifs sont d'obtenir l'assurance raisonnable que les comptes consolidés pris dans leur ensemble ne comportent pas d'anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs, et d'émettre un rapport du commissaire contenant notre opinion. L'assurance raisonnable correspond à un niveau élevé d'assurance, qui ne garantit toutefois pas qu'un audit réalisé conformément aux normes ISA permettra de toujours détecter toute anomalie significative existante. Les anomalies peuvent provenir de fraudes ou résulter d'erreurs et sont considérées comme significatives lorsqu'il est raisonnable de s'attendre à ce que, prises individuellement ou en cumulé, elles puissent influencer les décisions économiques que les utilisateurs des comptes consolidés prennent en se fondant sur ceux-ci.

Lors de l'exécution de notre contrôle, nous respectons le cadre légal, réglementaire et normatif qui s'applique à l'audit des comptes consolidés en Belgique.

Dans le cadre d'un audit réalisé conformément aux normes ISA et tout au long de celui-ci, nous exerçons notre jugement professionnel et faisons preuve d'esprit critique. En outre :

- nous identifions et évaluons les risques que les comptes consolidés comportent des anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs, définissons et mettons en œuvre des procédures d'audit en réponse à ces risques, et recueillons des éléments probants suffisants et appropriés pour fonder notre opinion. Le risque de non-détection d'une anomalie significative provenant d'une fraude est plus élevé que celui d'une anomalie significative résultant d'une erreur, car la fraude peut impliquer la collusion, la falsification, les omissions volontaires, les fausses déclarations ou le contournement du contrôle interne ;

- nous prenons connaissance du contrôle interne pertinent pour l'audit afin de définir des procédures d'audit appropriées en la circonstance, mais non dans le but d'exprimer une opinion sur l'efficacité du contrôle interne du Groupe ;

- nous apprécions le caractère approprié des méthodes comptables retenues et le caractère raisonnable des estimations comptables faites par l'organe de gestion, de même que des informations les concernant fournies par ce dernier ;

- nous concluons quant au caractère approprié de l'application par la direction du principe comptable de continuité d'exploitation et, selon les éléments probants recueillis, quant à l'existence ou non d'une incertitude significative liée à des événements ou situations susceptibles de jeter un doute important sur la capacité du Groupe à poursuivre son exploitation. Si nous concluons à l'existence d'une incertitude significative, nous sommes tenus d'attirer l'attention des lecteurs de notre rapport du commissaire sur les informations fournies dans les comptes consolidés au sujet de cette incertitude ou, si ces informations ne sont pas adéquates, d'exprimer une opinion modifiée. Nos conclusions s'appuient sur les éléments probants recueillis jusqu'à la date de notre rapport du commissaire. Cependant, des situations ou événements futurs pourraient conduire le Groupe à cesser son exploitation ;

- nous apprécions la présentation d'ensemble, la structure et le contenu des comptes consolidés et évaluons si les comptes consolidés reflètent les opérations et événements sous-jacents d'une manière telle qu'ils en donnent une image fidèle ;
- nous recueillons des éléments probants suffisants et appropriés concernant les informations financières des entités ou activités du Groupe pour exprimer une opinion sur les comptes consolidés. Nous sommes responsables de la direction, de la supervision et de la réalisation de l'audit au niveau du Groupe. Nous assumons l'entière responsabilité de l'opinion d'audit.

Nous communiquons à l'organe de gestion notamment l'étendue des travaux d'audit et le calendrier de réalisation prévus, ainsi que les constatations importantes relevées lors de notre audit, y compris toute faiblesse significative dans le contrôle interne.

RSM

AUTRES OBLIGATIONS LÉGALES ET RÉGLEMENTAIRES

**Responsabilités de l'organe de gestion**

L'organe de gestion est responsable de la préparation et du contenu du rapport de gestion sur les comptes consolidés.

**Responsabilités du commissaire**

Dans le cadre de notre mandat et conformément à la norme belge complémentaire aux normes internationales d'audit (ISA) applicables en Belgique, notre responsabilité est de vérifier, dans ses aspects significatifs, le rapport de gestion sur les comptes consolidés, ainsi que de faire rapport sur cet élément.

**Aspects relatifs au rapport de gestion sur les comptes consolidés**

À l'issue des vérifications spécifiques sur le rapport de gestion sur les comptes consolidés, nous sommes d'avis que celui-ci concorde avec les comptes consolidés pour le même exercice et a été établi conformément à l'article 119 du Code des sociétés.

Dans le cadre de notre audit des comptes consolidés, nous devons également apprécier, en particulier sur la base de notre connaissance acquise lors de l'audit, si le rapport de gestion sur les comptes consolidés comporte une anomalie significative, à savoir une information incorrectement formulée ou autrement trompeuse. Sur la base de ces travaux, nous n'avons pas d'anomalie significative à vous communiquer.

**Mentions relatives à l'indépendance**

- Notre cabinet de révision et notre réseau n'ont pas effectué de missions incompatibles avec le contrôle légal des comptes consolidés et sont restés indépendants vis-à-vis du Groupe au cours de notre mandat.
- Les honoraires relatifs aux missions complémentaires compatibles avec le contrôle légal visées à l'article 134 du Code des sociétés ont correctement été ventilés et valorisés dans les annexes aux comptes consolidés.

Gosselies, le 12 avril 2019

RSM INTERAUDIT SCRL
COMMISSAIRE
REPRÉSENTÉE PAR
THIERRY LEJUSTE
ASSOCIÉ

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