DECLARATION BY RESPONSIBLE PERSONS

The undersigned Chairman of the Management Committee and Chief Executive Officer Chris Peeters and Chief Financial Officer Catherine Vandenborre declare that to the best of their knowledge:

a. the consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and give a true and fair view of the consolidated financial position and results of the Elia Group and of its subsidiaries included in the consolidation;

b. the annual report for the year ended 31 December 2017 gives, in all material aspects, a true and fair view of the evolution of the business, the results and the situation of the Elia Group and of its entities included in the consolidation, as well as a description of the most significant risks and uncertainties the Elia Group is facing.

Brussels, 22 March 2018

Catherine Vandenborre
Chief Financial Officer

Chris Peeters
Chief Executive Officer

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of profit or loss

(In million EUR) - Year ended 31 December	Notes	2017	2016
Continuing operations			
Revenue	(6.1)	828.5	800.1
Raw materials, consumables and goods for resale	(6.3)	(9.6)	(18.8)
Other income	(6.2)	59.0	68.0
Services and other goods	(6.3)	(344.4)	(336.6)
Personnel expenses	(6.3)	(147.2)	(143.9)
Depreciation, amortisation and impairment	(6.3)	(131.2)	(124.8)
Changes in provisions	(6.3)	0.4	(5.3)
Other expenses	(6.3)	(19.6)	(22.1)
Results from operating activities		**235.9**	**216.6**
Share of profit of equity-accounted investees (net of tax)	(5.1- 5.2)	108.7	78.4
EBIT*		**344.6**	**295.0**
Net finance costs	(6.4)	**(76.5)**	**(82.8)**
Finance income		5.5	7.0
Finance costs		(81.9)	(89.9)
Profit before income tax		**268.2**	**212.2**
Income tax expense	(6.5)	(39.1)	(32.0)
Profit from continuing operations		**229.1**	**180.2**
Profit for the period		**229.1**	**180.2**
Profit attributable to:			
Owners of the company		229.1	179.9
Non-controlling interest		0.0	0.3
Profit for the period		**229.1**	**180.2**
Earnings per share (EUR)			
Basic earnings per share	(6.6)	3.76	2.95
Diluted earnings per share	(6.6)	3.76	2.95

* EBIT (Earnings Before Interest and Taxes) = Results from operating activities and share of profit of equity-accounted investees, net of income tax

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and comprehensive income

(in million EUR) - Year ended 31 December	Notes	2017	2016
Profit for the period		**229.1**	**180.2**
Other comprehensive income (OCI)			
Items that may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges	(6.7)	9.4	8.7
Related tax		(3.2)	(2.9)
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations	(7.12)	(13.7)	1.2
Equity-accounted investees - share of OCI		1.1	(0.6)
Related tax	(7.12)	2.3	(0.4)
Other comprehensive income for the period, net of tax		**(4.1)**	**6.0**
Total comprehensive income for the period		**225.0**	**186.2**
Total comprehensive income attributable to:			
Owners of the company		225.0	185.9
Non-controlling interest		0.0	0.3
Total comprehensive income for the period		**225.0**	**186.2**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of financial position

(in million EUR)	Notes	31 December 2017	31 December 2016
ASSETS			
NON-CURRENT ASSETS		**6,093.3**	**5,653.9**
Property, plant and equipment	(7.1)	3,202.4	2,956.5
Intangible assets and goodwill	(7.2)	1,738.6	1,735.8
Trade and other receivables	(7.4)	147.8	63.0
Equity-accounted investees	(5.1+5.2)	942.7	832.4
Other financial assets (including derivatives)	(7.3)	60.8	65.4
Deferred tax assets	(7.5)	1.0	0.8
CURRENT ASSETS		**503.2**	**587.7**
Inventories	(7.6)	13.6	22.6
Trade and other receivables	(7.7)	281.1	379.6
Current tax assets	(7.8)	3.8	2.8
Cash and cash equivalents	(7.9)	195.2	176.6
Deferred charges and accrued revenues	(7.7)	9.5	6.1
Total assets		**6,596.5**	**6,241.6**
EQUITY AND LIABILITIES			
EQUITY		**2,641.8**	**2,512.6**
Equity attributable to owners of the company	(7.10)	2,640.7	2,511.4
Share capital		1,517.6	1,517.2
Share premium		11.9	11.8
Reserves		173.0	173.0
Hedging reserve		0.0	(6.2)
Retained earnings		938.2	815.6
Non-controlling interest		1.1	1.2
NON-CURRENT LIABILITIES		**2,984.5**	**2,728.0**
Loans and borrowings	(7.11)	2,834.7	2,586.4
Employee benefits	(7.12)	84.3	75.1
Derivatives	(8.2)	0.0	9.4
Provisions	(7.13)	20.8	23.3
Deferred tax liabilities	(7.5)	40.9	28.7
Other liabilities	(7.14)	3.8	5.1
CURRENT LIABILITIES		**970.2**	**1,001.0**
Loans and borrowings	(7.11)	49.5	147.5
Provisions	(7.13)	4.5	2.4
Trade and other payables	(7.15)	378.6	390.8
Current tax liabilities		2.9	0.5
Accruals and deferred income	(7.16)	534.7	459.8
Total equity and liabilities		**6,596.5**	**6,241.6**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(In million EUR)	Notes	Share capital	Share premium	Hedging reserve	Foreign currency translation	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016		1,512.8	10.0	(11.9)	0.1	138.8	763.8	2,413.6	0.8	2,414.4
Profit for the period							179.8	179.8	0.3	180.2
Other comprehensive income net of tax	(6.7)			5.8			0.2	6.0		6.0
Total comprehensive income for the period				**5.8**			**180.0**	**185.8**	**0.3**	**186.2**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Shares issued	(7.10)	3.5	1.8					5.3		5.3
Share-based payment	(6.3)	0.9						0.9		0.9
Transfer to legal reserve	(7.10)					34.3	(34.3)			
Dividends	(7.10)						(94.1)	(94.1)		(94.1)
Total contributions and distributions		4.4	1.8			34.3	(128.4)	(88.0)		(88.0)
Total transactions with owners		4.4	1.8			34.3	(128.4)	(88.0)		(88.0)
Balance at 31 December 2016		**1,517.2**	**11.8**	**(6.1)**	**0.0**	**173.0**	**815.5**	**2,511.4**	**1.2**	**2,512.6**
Balance at 1 January 2017		**1,517.2**	**11.8**	**(6.1)**	**0.0**	**173.0**	**815.5**	**2,511.4**	**1.2**	**2,512.6**
Profit for the period	(6.7)						229.1	229.1	0.0	229.1
Other comprehensive income net of tax	(6.7)			6.2			(10.3)	(4.1)		(4.1)
Total comprehensive income for the period				**6.2**			**218.8**	**225.0**	**0.0**	**225.0**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Shares issued	(7.10)	0.2	0.1					0.3		0.3
Share-based payment	(6.3)	0.1						0.1		0.1
Transfer to legal reserve	(7.10)									
Dividends	(7.10)						(96.2)	(96.2)		(96.2)
Total contributions and distributions		0.3	0.1				(96.2)	(95.8)		(95.8)
Total transactions with owners		0.3	0.1				(96.2)	(95.8)		(95.8)
Balance at 31 December 2017		**1,517.6**	**11.9**	**0.0**	**0.0**	**173.0**	**938.2**	**2,640.7**	**1.1**	**2,641.8**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

(in million EUR) - Year ended 31 December	Notes	2017	2016
Cash flows from operating activities			
Profit for the period		**229.1**	**179.9**
Adjustments for:			
Net finance costs	(6.4)	76.5	82.9
Other non-cash items		0.1	1.0
Current income tax expense	(6.5)	29.2	12.5
Profit or loss of equity accounted investees, net of tax	(5.1 – 5.2)	(108.7)	(78.5)
Depreciation of PP&E and amortisation of intangible assets	(7.1 - 7.2)	131.4	124.4
Gain on sale of property, plant and equipment and intangible assets	(7.1 - 7.2)	6.5	8.8
Impairment losses of current assets	(6.3)	0.0	0.6
Change in provisions	(6.3)	(5.3)	(1.2)
Change in fair value of derivatives	(8.2)	1.1	1.0
Change in deferred taxes	(7.5)	9.9	19.4
Cash flow from operating activities		**369.8**	**350.9**
Change in inventories	(7.6)	9.3	1.3
Change in trade and other receivables	(7.7)	98.2	(61.4)
Change in other current assets	(7.7)	4.8	3.9
Change in trade and other payables	(7.15)	(12.3)	80.5
Change in other current liabilities	(7.14 - 7.16)	74.9	91.2
Changes in working capital		**174.8**	**115.5**
Interest paid	(6.4)	(88.4)	(115.6)
Interest received	(6.4)	1.7	56.5
Income tax paid	(6.5)	(27.6)	80.3
Net cash from operating activities		**430.3**	**487.6**
Cash flows from investing activities			
Acquisition intangible assets	(7.2)	(10.6)	(9.6)
Acquisition of property, plant and equipment	(7.1)	(369.1)	(388.6)
Acquisition of equity-accounted investees	(5.1)	(57.2)	(25.8)
Proceeds from sale of property, plant and equipment		1.5	3.2
Proceeds from sales of investments	(7.3 - 8.1)	0.0	6.3
Proceeds from capital decrease from equity-accounted investees	(5.1)	0.1	7.2
Dividend received from equity-accounted investees	(5.1 - 5.2)	56.8	57.3
Loans to joint ventures	(7.4)	(84.6)	(38.7)
Net cash used in investing activities		**(463.1)**	**(388.7)**
Cash flow from financing activities			
Proceeds from issue share capital	(7.10)	0.4	5.3
Expenses related to issue share capital		0.0	(0.1)
Dividends paid (-)	(7.10)	(96.2)	(94.2)
Repayment of borrowings (-)	(6.4)	(100.0)	(540.0)
Proceeds from withdrawal borrowings (+)	(7.11)	247.2	80.0
Non-controlling interests		0.0	0.3
Net cash flow from (used in) financing activities		**51.4**	**(548.7)**
Net increase (decrease) in cash and cash equivalents		**18.6**	**(449.8)**
Cash and cash equivalents at 1 January		176.6	626.4
Cash and cash equivalents at 31 December		195.2	176.6
Net variations in cash and cash equivalents		**18.6**	**(449.8)**

The accompanying notes form an integral part of these consolidated financial statements.

NOTES ACCOMPANYING THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES ACCOMPANYING THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

Established in Belgium, Elia System Operator SA (the 'Company' or 'Elia') has its registered office at Boulevard de l'Empereur 20, B-1000 Brussels. The Company's consolidated financial statements for the 2017 financial year include those of the Company and its subsidiaries (together referred to as the 'Group' or 'Elia Group') and the Group's interest in joint ventures and associates.

The Company is a limited liability company, with its shares listed on Euronext Brussels, under the symbol ELI.

The Elia Group is organised around two electricity transmission system operators: Elia Transmission in Belgium and (in cooperation with Industry Funds Management) 50Hertz Transmission, one of the four German transmission system operators, active in the north and east of Germany. With around 2,300 employees and a transmission grid comprising some 18,600 km of high-voltage connections serving 30 million consumers, the Elia Group is one of Europe's top five TSOs. It efficiently, reliably and securely transmits electricity from generators to distribution system operators and major industrial consumers, while also importing and exporting electricity from and to neighbouring countries. The Group is a driving force behind the development of the European electricity market and the integration of energy generated from renewable sources. In addition to its system-operator activities in Belgium and Germany, the Elia Group offers businesses a range of consultancy and engineering services. The Group operates under the legal entity Elia System Operator, a listed company whose reference shareholder is municipal holding company Publi-T.

2. Basis of preparation

2.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The Group has applied all new and revised standards and interpretations published by IASB and applicable to the Group's activities which are effective for financial years starting on 1 January 2017.

New and amended standards and interpretations

If a standard or amendment affects the Group, it is described, together with the impact hereunder.

- **Recognition of Deferred Tax Assets for Unrealised Losses** (amendments to IAS 12 – effective as of 1 January 2017)
  The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Furthermore, the amendments provide guidance on estimating probable future taxable profits when assessing the recognition of deferred tax assets when there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity. The Group was not impacted by this new treatment.

- **Disclosure Initiative** (amendments to IAS 7 – effective as of 1 January 2017)
  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 7.18.

- **Amendments to IFRS 12: Disclosure of Interests in Other Entities** (effective as of 1 January 2017)
  Clarification of the scope of disclosure requirements in IFRS 12 from Annual Improvements Cycle 2014-2016. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. In line with the Group's business model, none of the Group's participations are held for sale and therefore these amendments did not affect the Group's financial statements.

Standards, amendments and interpretations that are not yet effective in 2017

The standards, interpretations or amendments listed hereafter are published on the date of approval of these consolidated financial statements but are not yet effective, and the Group did not opt for early adoption:

- **IFRS 9: Financial Instruments** (effective as of 1 January 2018) reflects all phases of the financial instruments project and replaces IAS 39: Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

  The Group plans to adopt the new standard on the required effective date and will not restate comparative information. The Group has reviewed in detail the potential impact of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

  (a) Classification and measurement
  Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Group will apply the option to present fair-value changes in OCI. The Group considered that for the Belgian segment the application of IFRS 9 on these equity shares would have an effect of less than €0.1 million. For the German segment, a positive effect of approx. €5.4 million is expected to occur which will be recognised through OCI.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. IFRS 9 does not have an impact on the accounting policies for derecognition of financial assets and liabilities.

(b) Impairment
IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or on a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables.

A preliminary assessment for the Belgian segment indicated that the application of the Expected Credit Losses (ECL) method at 31 December 2017 would increase the bad debt allowance for trade receivables by €0.3 million at that date compared with the allowance for trade receivables recognised under IAS 39. Deferred tax assets would increase by €0.1 million and net profit for the period would decrease by €0.2 million.

A similar assessment for the German segment indicates that the application of the Expected Credit Losses (ECL) method at 31 December 2017 would increase the bad debt allowance for trade receivables by €0.4 million at that date compared with the allowance for trade receivables recognised under IAS 39. Deferred tax assets would increase by €0.1 million, and net profit for the period would decrease by €0.3 million.

(c) Hedge accounting
Under the amended hedging requirements, more hedge relationships could be eligible for hedge accounting, as the new standard introduces a more principles-based approach. However, at this stage the Group does not expect any new hedge relationships to be designated. The Group's existing hedge relationships appear to qualify as continuing hedges upon the adoption of IFRS 9. As a consequence, the Group does not expect a significant impact on its hedge relationships.

- **IFRS 15: Revenue from Contracts with Customers** (effective as of 1 January 2018) establishes a new comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18: Revenue, IAS 11: Construction Contracts, IFRIC 18: Transfers of Assets from Customers, and IFRIC 13: Customer Loyalty Programmes.

The Group has completed an assessment of the impact of the adoption of IFRS 15 on its consolidated financial statements. The Group only foresees an impact as a result of the application of IFRIC 18.

Under IFRS 15, recognised revenue should reflect the consideration received by an entity in exchange for the transfer of control of promised goods or services to customers. The Group used a five-step approach to assess whether a contract falls within the scope of IFRS 15 and how revenue should be recognised.

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract(s)
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when performance obligations are satisfied, or when control of goods or services is transferred to the customer

The Group has a number of standard contracts for its customers, covering most of its revenue. These contracts are specific to each segment. As a consequence, the analysis of the potential impact of IFRS 15 is performed by reviewing those standard contracts. In the table below, an overview of the different revenue buckets is given, with reference to the relevant contracts and the result of the potential impact under IFRS 15.

Revenue bucket (per segment)	**Revenue bucket (Group)**	**Contracts**	**Status analysis**	**Within the scope of IFRS 15**	**Change in accounting policy**	**Change in amount of revenue**	**Change in timing of revenue**	**Impact on opening equity on 1 January 2018 (net of tax)**
Elia Transmission (Belgium) revenues								
Grid connection	Revenue	Connection contract	complete	yes	no	no	no	0.0
Management and development of grid infrastructure	Revenue	Access contract	complete	yes	no	no	no	0.0

Management of the electrical system	Revenue	Access contract	complete	yes	no	no	no	0.0
Compensation for imbalances	Revenue	ARP contract	complete	yes	no	no	no	0.0
Market integration	Revenue	ARP contract	complete	yes	no	no	no	0.0
International revenues	Revenue	Congestion revenues	complete	yes	no	no	no	0.0
Other income	Transfers of assets from customers	Customer contributions	complete	yes	yes	no	yes	(63.3)
Other income	Revenue	EGI contracts	complete	yes	no	no	no	0.0
Other income	Optimal use of assets	Telecom contracts	complete	yes	no	no	no	0.0
50Hertz Transmission (Germany) revenues (at 100%)								
Vertical grid revenues	n/a	Grid use contract	complete	yes	no	no	no	0.0
Ancillary-services revenues	n/a	Contract for balancing groups	complete	yes	no	no	no	0.0
Other income	n/a	Customer contributions	complete	yes	yes	no	yes	(33.2)

Received client contributions (IFRIC 18) are currently directly recognised in full as revenue, whereas under IFRS 15 the cash considerations should be presented as deferred revenue and will be recognized in revenue over the lifetime of the underlying asset.

The impact of the transition to IFRS 15 on the revenue of the segments Elia Transmission Belgium and 50Hertz Transmission Germany is shown below:

Elia Transmission (Belgium) revenues – Period ended	**31 December 2017** as reported	**31 December 2017** under IFRS 15	**31 December 2017** difference
Grid connection	42.2	42.2	0.0
Management and development of grid infrastructure	479.2	479.2	0.0
Management of the electrical system	118.5	118.5	0.0
Compensation for imbalances	170.7	170.7	0.0
Market integration	24.3	24.3	0.0
International revenue	47.3	47.3	0.0
Other income	97.5	77.2	(20.4)
Subtotal revenues and other income	**979.8**	**959.4**	**(20.4)**
Settlement mechanism: deviations from approved budget	(92.3)	(92.3)	0.0
Total revenues and other income	**887.5**	**867.1**	**(20.4)**

50Hertz Transmission (Germany) revenues – Period ended	**31 December 2017** as reported	**31 December 2017** under IFRS 15	**31 December 2017** Difference
Vertical grid revenues	1,241.4	1,241.4	0.0
Horizontal grid revenues	210.2	210.2	0.0
Ancillary services revenues	94.0	94.0	0.0
Other income	73.5	72.7	(0.8)
Subtotal revenue and other income	**1,619.1**	**1,618.3**	**(0.8)**
Settlement mechanism: deviations from approved budget	(288.9)	(288.9)	0.0
Total revenues and other income	**1,330.2**	**1,329.4**	**(0.8)**

The summarised impact on the Group's revenue is detailed below:

Revenues – Period ended	**31 December 2017** as reported	**31 December 2017** under IFRS 15	**31 December 2017** difference

Revenue	806.4	806.4	0.0
Transfers of assets from customers	22.1	1.7	(20.4)
Total revenue	**828.5**	**808.2**	**(20.4)**
Other operating income			
Services and technical expertise	(0.3)	(0.3)	0.0
Own production	25.5	25.5	0.0
Optimal use of assets	14.3	14.3	0.0
Other	18.5	18.5	0.0
Gain on sale PPE	1.0	1.0	0.0
Total other operating income	**59.0**	**59.0**	**0.0**

The impact on the results of the Group can be found in the table below for the period ended 31 December 2017 as well as for the expected impact on the opening equity at 1 January 2018:

The companies which are included in the 50Hertz Transmission Germany segment are accounted for using the equity method (at 60%), therefore the impact of IFRS 15 on their revenue recognition is given in the entry 'Share of profit of equity-accounted investees (net of income tax)' in the Group's results.

The summarised impact on the Group is detailed below:

Key figures – Period ended	**31 December 2017** as reported	**31 December 2017** under IFRS 15	**31 December 2017** difference
Total revenues	887.5	867.1	(20.4)
Share of profit of equity-accounted investees (net of income tax)	108.7	107.9	(0.4)
Income tax expenses	(39.1)	(39.6)	(0.5)
Net profit	**229.1**	**207.4**	**(21.4)**
Total assets	6,596.5	6,576.5	(20.0)
Total equity	2,640.7	2,557.5	(83.2)
Key figures per share			
Basic earnings per share (EUR)	3.76	3.41	(0.35)
Equity per share (EUR)	43.4	42.0	(1.4)

The income tax expenses, as presented in the table above, include the combined effect of additional temporary differences accumulated throughout the financial year 2017 which has resulted in an increased deferred tax liability of €6.9 million, as well as an offsetting effect resulting from remeasuring the accumulated temporary differences at the lower tax rates, as enacted as part of the tax reform, and having an effect of €7.4 million.

Transition method
The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018 using the full retrospective method. As a result, the Group will apply all of the IFRS 15 requirements to each comparative period presented and adjust its consolidated financial statements.

The Group also plans to use the practical expedients for completed contracts, if relevant, meaning that completed contracts that began and ended in the same comparative period, as well as those that are completed at the beginning of the earliest period presented, will not be restated.

- **IFRS 16** was issued in January 2016 and replaces IAS 17: Leases, IFRIC 4: Determining whether an Arrangement contains a Lease, SIC-15: Operating Leases - Incentives and SIC 27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

  Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transitional provisions allow for certain reliefs.

The Group is currently in the process of quantifying the effect of IFRS 16 on the consolidated financial statements. Potential effects will be communicated during the financial year 2018.

- The following **standards, amendments and interpretations** had not yet taken effect in 2017. The changes in the below standards, amendments and interpretations **are not expected to have a material impact on the annual accounts** and are therefore not set out in more detail:
  - Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
  - IFRS 14: Regulatory Deferral Accounts;
  - IFRS 2: Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2;
  - IFRS 17: Insurance Contracts;
  - Transfers of Investment Property – Amendments to IAS 40;
  - Annual Improvements to IFRS Standards 2014-2016 Cycle; particularly focused on IFRS 1 and IAS 28;
  - Annual Improvements to IFRS Standards 2015-2017 Cycle; particularly focused on IFRS 3, IFRS 11, IAS 12 and IAS 23;
  - Amendments to IFRS 9: Prepayment Features with Negative Compensation;
  - Applying IFRS 9: Financial Instruments with IFRS 4: Insurance Contracts – Amendments to IFRS 4;
  - Amendments to IAS 28: Long-term interests in Associates and Joint Ventures;
  - IFRIC 22: Foreign Currency Transactions and Advance Consideration; and
  - IFRIC Interpretation 23: Uncertainty over Income Tax Treatment.

2.2. Functional and presentation currency

The consolidated financial statements are presented in million euro (the functional currency of the Company), rounded to the nearest hundred thousand, unless stated otherwise.

2.3. Basis of measurement

The consolidated financial statements have been prepared on a historical-cost basis, except for the derivative financial instruments, which are measured at fair value. Non-current assets and disposal groups held for sale are valued at the lowest of the carrying amount and the fair value less cost to sell. Employee benefits are valued at the present value of the defined benefit obligations, less fair value of the plan assets. Changes in fair value of financial assets are recorded through profit or loss.

2.4. Use of estimates and judgements

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that could affect the reported amounts of assets and liabilities and revenue and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements regarding the carrying amounts of assets and liabilities. Actual results could differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects this period, or in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- The net result of the Belgian segment and the German segment is determined by calculation methods set by respectively the Belgian federal regulator, the Commission for Electricity and Gas Regulation ('CREG') and the German federal regulator, the Federal Network Agency ('BNetzA'). For certain calculations, a level of judgement is needed. More disclosures are to be found in Notes 7.16, 9.1.4 and 9.2.3.

- Consolidation of entities in which the Group holds less than 20% of the voting rights but has significant influence: Under IFRS 10, the Group assesses whether it has significant influence over its associates and therefore needs to consolidate them and reassesses this in each reporting period (also see note 5).

- Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits in so far as it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. In making its judgement, management takes into account elements such as long-term business strategy and tax planning opportunities (see Note 6.5).

- Credit risk related to customers: Management closely reviews the outstanding trade receivables, also considering ageing, payment history and credit risk coverage (see Note 8.2).

- Employee benefits including reimbursement rights: The Group has defined-benefit plans and defined-contribution plans which are disclosed in Note 7.12. The calculation of the liabilities or assets related to these plans is based on actuarial and statistical assumptions. This is, for example, the case for the present value of future pension liabilities. The present value is, among other factors, impacted by changes in discount rates, and financial assumptions such as future increases in salary. In addition, demographic assumptions, such as average assumed retirement age, also impact the present value of future pension liabilities.

- In determining the appropriate discount rate, management consider the interest rates of corporate bonds in currencies consistent with currencies of the post-employment benefit obligation, i.e. euro, with at least an AA rating or above, as set by at least one dominant rating agency, and extrapolated along the yield curve to correspond with the expected term of the defined benefit obligation. Higher and lower yielding bonds are excluded in developing the appropriate yield curve.

- Each plan's projected cash flow is matched to the spot rates of the yield curve to calculate an associated present value. A single equivalent discount rate is then determined that produces that same present value. Hence, the resulting discount rate reflects both the current interest rate environment and the plan's distinct liability characteristics;

- Provisions for environmental remediation costs: At each year-end, an estimate is made of future expenses in respect of soil remediation, based on the advice of an external expert. The extent of remediation costs is dependent on a limited number of uncertainties, among others newly identified cases of soil contamination (see Note 7.13);

- Other provisions are based on the value of the claims filed or on the estimated amount of the risk exposure. The expected timing of the related cash outflow depends on the progress and the duration of the associated process/procedures (see Note 7.13);

- Goodwill impairment testing: The Group performs impairment tests on goodwill and on cash-generating units (CGUs) at the reporting date, and whenever there are indicators that the carrying amount might be higher than the recoverable amount. This analysis is based on assumptions such as market evolution, market share, margin evolution and discount rates (see Note 7.2);

- Fair value measurement of financial instruments: When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these valuation techniques are taken from observable markets where possible. Where this is not feasible, a level of judgement is required in establishing fair values. Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income (OCI) to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss (see Note 8.2).

2.5. Approval by the Board of Directors

These consolidated financial statements were authorised for issue by the Board of Directors on 22 March 2018.

3. Significant accounting policies

3.1. Basis of consolidation

SUBSIDIARIES
A subsidiary is an entity that is controlled by the Company. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that this ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

ASSOCIATED COMPANIES
Associated companies are those companies in which the Company has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised profits and losses of associated companies on the basis of the equity method, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of the losses exceeds its interest in an associated company, its carrying amount is reduced to nil and further losses are not recognised except to the extent that the Group has incurred legal or constructive obligations or has made payments on behalf of an associated company.

INTERESTS IN JOINT VENTURES
A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, as opposed to joint operations whereby the Group has rights to its assets and obligations for its liabilities. Interests in joint ventures are accounted for using the equity method. They are recognised initially at cost price. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the total recognised profits and losses of joint ventures on the basis of the equity method, from the date that joint control commences until the date that joint control ceases. When the Group's share of the losses exceeds its interest in joint ventures, its carrying amount is reduced to nil and further losses are not recognised except to the extent that the Group has incurred legal or constructive obligations or has made payments on behalf of a joint venture.

NON-CONTROLLING INTERESTS
Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary not wholly owned that do not result in a loss of control are accounted for as equity transactions.

LOSS OF CONTROL
Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of other comprehensive income related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

ELIMINATION OF INTRA-GROUP TRANSACTIONS
Intra-Group balances and any unrealised gains or losses or revenue and expenses arising from intra-Group transactions are eliminated when preparing the consolidated financial statements.

Unrealised gains from transactions with associated companies are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

BUSINESS COMBINATIONS AND GOODWILL
Goodwill arises on the acquisition of subsidiaries, joint ventures and associates and represents the excess of the consideration transferred over the Group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

The Group measures goodwill at the acquisition date as:
the fair value of the consideration transferred; plus
the recognised amount of any non-controlling interest in the acquiree; plus
if the business combination is completed in stages, the fair value of the pre-existing equity interest in the acquiree; less
the fair value of the identifiable assets acquired and liabilities at acquisition date.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then It is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

3.2. Foreign-currency translation

FOREIGN-CURRENCY TRANSACTIONS AND BALANCES

Transactions in foreign currencies are converted into the functional currency of the Company at the foreign exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies on the balance-sheet date are converted at the foreign exchange rate on that date. Foreign exchange differences arising on conversion are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are valued in terms of historical cost are converted at the exchange rate on the date of the transaction.

FOREIGN OPERATIONS

A foreign operation is an entity that is a subsidiary, an associate, an interest in a joint venture or a branch of the reporting entity, whose activities are based or conducted in a country or currency other than those of the reporting entity.

The financial statements of all Group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:
assets and liabilities are translated at the exchange rate at the reporting date;
income and expenses are translated at the average exchange rate of the year.

Exchange differences arising from the translation of the net investment in foreign subsidiaries, interests in joint ventures and associates at closing exchange rates are included in shareholder's equity under 'OCI. Upon the (partial) disposal of foreign subsidiaries, joint ventures and associates, (part of) cumulative translation adjustments are recognised in the profit or loss as part of the gain/loss of the sale.

3.3. Financial instruments

DERIVATIVE FINANCIAL INSTRUMENTS

The Group sometimes uses derivative financial instruments to hedge its exposure to foreign-exchange and interest-rate risks arising from operating, financing and investment activities. In accordance with its treasury policy, the Group neither holds nor issues derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as instruments held for trading purposes.

Derivative financial instruments are recognised initially at fair value. Any gain or loss resulting from changes in the fair value is immediately booked in the income statement. Where derivative financial instruments qualify for hedge accounting, the reflection of any resulting gain or loss depends on the nature of the item being hedged.

The fair value of interest-rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account the current interest rates and the current creditworthiness of the swap counterparties and the Group. The fair value of forward exchange contracts is their quoted market price at the end of the reporting period, i.e. the present value of the quoted forward price.

DERIVATIVES USED AS HEDGING INSTRUMENTS

Cash-flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash-flow hedge are recognised directly in other comprehensive income (OCI) to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is prospectively discontinued. The cumulative gain or loss previously recognised in OCI remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in OCI is transferred, where justified, to the carrying amount of the asset. In other cases, the amount recognised in OCI is transferred to profit or loss in the same period that the hedged item affects profit or loss.

When a derivative or hedge relationship is terminated, cumulative gains or losses still remain in OCI provided that the hedged transaction is still expected to occur. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is removed from OCI and is immediately recognised in profit or loss.

Hedging of monetary assets and liabilities

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss of foreign-currency gains and losses.

3.4. Balance sheet items

PROPERTY, PLANT AND EQUIPMENT

Owned assets

Items of property, plant and equipment are stated at cost (including the directly allocated costs such as finance costs) less accumulated depreciation and impairment losses (see the section 'Impairment'). The cost of self-produced assets comprises the cost of materials, of direct labour and, where relevant, of the initial estimate of the costs of dismantling and removing the assets and restoring the site where the assets were located. If parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the subsequent costs of replacing part of such an item when that cost is incurred, but only when it is probable that the future economic benefits embodied in the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repair and maintenance costs, are recognised in profit or loss as and when they are incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment. Land is not depreciated. The applied depreciation percentages can be found in the table below.

Depreciation methods, remaining useful lives and residual values of the property, plant and equipment are reassessed annually and are prospectively adjusted as the occasion arises.

Administrative buildings	2.00%
Industrial buildings	2.00 – 4.00%
Overhead lines	2.00 – 4.00%
Underground cables	2.00 – 5.00%
Substations (facilities and machines)	2.50 – 6.67%
Remote control	3.00 – 12.50%
Dispatching	4.00 – 10.00%
Other PPE (fitting out rented buildings)	contractual period
Vehicles	6.67 – 20.00%
Tools and office furniture	6.67 – 20.00%
Hardware	25.00 – 33.00%

Dismantling obligation

Provision is made for decommissioning and environmental costs, based on future estimated expenditure, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditure relating to property, plant or equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated economic useful lives; otherwise such changes are recognised in the profit or loss.

The unwinding of the discount is recorded in the profit or loss as a financing charge.

Derecognition

An asset is no longer recognised when the asset is subject to disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the derecognition of the asset (which is determined as the difference between the net disposal proceeds and the carrying amount of the asset) are included in profit or loss, under other income or other expenses, during the year in which the asset was derecognised.

INTANGIBLE ASSETS

Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but tested annually for impairment (see the section 'Impairment'). In the case of associated companies, the carrying amount of goodwill is included in the carrying amount of the investment in the associated company.

Computer software

Software licences acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see the section 'Impairment').

Expenditure on research activities undertaken with the prospect of developing software within the Group is recognised in profit or loss as expenditure as incurred. Expenditure on the development phase of software developed within the Group is capitalised if:
the costs of development can be measured reliably;
the software is technically and commercially feasible and future economic benefits are likely;
the Group plans – and has sufficient resources – to complete development;
the Group plans to use the software.

The capitalised expenditure includes cost of material, direct labour costs and overhead costs that are directly attributable to preparing the software for its use. Other costs are recognised in profit or loss as incurred.

Licenses, patents and similar rights

Expenditure on acquired licences, patents, trademarks and similar rights are capitalised and amortised on a straight-line basis over the contractual period, if any, or the estimated useful life.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as expenditure as incurred.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of intangible assets, unless the useful life is indefinite. Goodwill and intangible assets with indefinite useful lives are tested systematically for impairment on each end of the reporting period. Software is amortised from the date it is available for use. The estimated useful lives are as follows:

Licences	20.00%
Concessions	contractual period
Computer software	20.00 – 25.00%

Depreciation methods, remaining useful lives and residual values of intangible assets are reassessed annually and are prospectively adjusted as the occasion arises.

INVESTMENTS

Each type of investment is recognised on the date of the transaction.

Investments in equity securities

Investments in equity securities are undertakings in which the Group has no significant influence or control. This is the case in undertakings where the Group owns less than 20% of the voting rights. Such investments are designated as available-for-sale financial assets and are measured at fair value. Any resulting changes in fair value, except those related to impairment losses, are recognised directly in other comprehensive income (OCI). Upon disposal of an investment, the cumulative gain or loss previously recognised directly in OCI is recognised in profit or loss.

The equity investees are measured at cost price if there is no quoted price in an active market and the fair value cannot be measured reliably.

Investments in debt instruments

Investments in debt securities classified as held for trading purposes or as being available-for-sale are carried at fair value, with any resulting gain or loss respectively recognised in profit or loss or directly in equity. The fair value of these investments is determined as the quoted bid price at the end of the reporting period. Impairment charges and foreign exchange gains and losses are recognised in profit or loss. Investments in debt securities classified as held to maturity are measured at amortised cost.

Other investments

Other investments held by the Group are classified as available-for-sale and are measured at fair value, with any resulting gain or loss recognised directly in equity. Impairment charges are recognised in OCI (see the section 'Impairment').

TRADE AND OTHER RECEIVABLES

Construction contracts in progress

Construction contracts in progress are stated at cost price plus profit based on progress made to date, minus a provision for foreseeable losses and less progress billing. The cost price comprises all expenditure directly related to specific projects, plus an allocation of fixed and variable overheads incurred during the Group's contract activities based on normal operating capacity.

Trade and other receivables

Trade receivables and other receivables are measured at amortised cost minus the appropriate allowance for amounts regarded as unrecoverable.

INVENTORIES

Inventories (spare parts) are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price minus the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted-average-cost-price method. The cost includes the expenditure incurred in acquiring the inventories, and the direct costs of bringing them to their location and making them operational.

Write-downs of inventories to net realisable value are recognised in the period in which the write-offs occurred.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances, bank balances, commercial paper and deposits that can be withdrawn on demand. Overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

IMPAIRMENT – NON-FINANCIAL ASSETS

The carrying amount of the Group's assets, excluding inventories and deferred taxes, are reviewed at the end of the reporting period for each asset to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

The recoverable amount of goodwill and intangible assets with an indefinite useful life and intangible assets that are not yet available for use is estimated at the end of each reporting period.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Recognised impairment losses relating to cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the units on a pro-rata basis.

After recognition of impairment losses, the depreciation costs for the asset will be prospectively adjusted.

Calculation of the recoverable amount

The recoverable amount of intangible assets and property, plant and equipment is determined as the higher of their fair value less costs to sell or value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects both the current market assessment of the time value of money and the risks specific to the asset.

The Group's assets do not generate cash flows that are independent from other assets. The recoverable amount is therefore determined for the cash-generating unit (i.e. the entire high-voltage grid) to which the asset belongs. This is also the level at which the Group administers its goodwill and reaps the economic benefits of acquired goodwill.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed. Impairment loss on other assets is reversed if there have been changes in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

IMPAIRMENT – FINANCIAL ASSETS

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investments securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

SHARE CAPITAL

Transaction costs

Transaction costs in respect of the issuing of capital are deducted from the capital received.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

INTEREST-BEARING LOANS

Interest-bearing loans are recognised initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing loans are stated at amortised cost price with any difference between cost price and redemption value being recognised in profit or loss over the period of the loans on an effective interest basis.

EMPLOYEE BENEFITS

Defined-contribution plans

All Belgian contribution-based promises, called defined-contribution pension plans under Belgian pension legislation, are classified as defined-benefit plans for accounting purposes due to the legal minimum return to be guaranteed by the employer.

As Belgian contribution-based promises are not back-loaded, the defined-benefit obligation (DBO) was determined following the Projected Unit Credit-method (PUC) without projection of future contributions. The fair value of assets equals for each plan the sum of the accrued individual reserves (if any) and the value of the collective fund(s) (if any). Please also see the following section, 'Defined-benefit plans'.

Defined-benefit plans

For defined-benefit plans, the pension expenses are assessed on an annual basis by accredited actuaries separately for each plan, using the projected unit credit method. The estimated future benefit that employees have earned in return for their service in the current and previous periods is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the interest rate as at the end of the reporting period on high-quality bonds which have maturity dates that approximate to the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss at the earlier of the following dates:
when the plan amendment or curtailment occurs; or
when the entity recognises related restructuring costs under IAS 37 or termination benefits.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Reimbursement rights

Reimbursement rights are recognised as a separate asset when, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle the corresponding benefit obligation. The reimbursement rights are presented as non-current assets under other financial assets and are measured at expected value. These rights are handled the same as the corresponding defined-benefit obligation. When changes in the period result from changes in financial assumptions; changes from experience adjustments or changes in demographic assumptions, the asset is adjusted through OCI. The components of the defined-benefit cost are recognised net of amounts relating to changes in the carrying amount of the rights to reimbursement.

Other long-term employee benefits

The Group's net obligation in respect of long-term service benefits other than pension plans is assessed on an annual basis by accredited actuaries. The net obligation is calculated using the projected unit credit method and is the amount of future benefit that employees have earned in return for their service in the current and previous periods. The obligation is discounted to its present value, and the fair value of any related assets is deducted. The discount rate is the yield as at the end of the reporting period on high-quality bonds having maturity dates that approximate to the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid out under a short-term cash bonus or profit-sharing plans if the Group has a legal or constructive obligation to pay this amount as a result of the past service provided by the employee, and the obligation can be reliably estimated.

PROVISIONS

A provision is recognised in the balance sheet when the Group has a current legal or constructive obligation as a result of a past event and it is likely that an outflow of economic benefits – of which a reliable estimate can be made – will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, of the risks specific to the liability.

If the Group expects to recover some or all of the provisions from a third party, the compensation is only included as a separate asset if it is virtually certain that said compensation will be awarded. The cost connected to a provision is included in profit or loss net of any compensation.

The total estimated cost of dismantling and disposal of an asset are, if applicable, recognised as property, plant and equipment and depreciated over the asset's entire useful life. The total estimated cost of dismantling and of disposal of the asset is posted as provisions for the discounted current value. If the amount is discounted, the increase in the provision due to the lapse of time is classified as finance expenses.

TRADE AND OTHER PAYABLES

Trade and other payables are stated at amortised cost.

GOVERNMENT GRANTS

Government grants are recognised when it is reasonably certain that the Group will receive the grant and that all underlying conditions will be met. Grants related to an asset are presented under other liabilities and will be recognised in the income statement on a systematic basis over the expected useful life of the related asset. Grants related to expense items are recognised in the income statement in the same period as the expenses for which the grant was received. Government grants are presented as other operating income in the income statement.

3.5. Income-statement items

REVENUE

Revenue is recognised when it is probable that future economic benefits associated with the transaction will flow to the entity and that these benefits can be measured reliably and recovery of the compensation due is likely.

Revenue includes changes in the settlement mechanism (see Note 7.16).

Revenue represents the fair value of the consideration received in the ordinary course of the Group's activities.

Goods sold and services rendered

Revenue from services and the sale of goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

Construction contracts in progress

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. An expected loss on a contract is immediately recognised in profit or loss.

Transfer of assets from customers

The revenue from customers (financial contribution) for the construction of connections and related enhancement to the high-voltage grid is recognised in profit or loss on the basis of the stage reached in recovery of the underlying property, plant and equipment.

Other income

Other income is recognised when it is earned or when the related service is performed.

EXPENSES

Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received to conclude the leasing agreement are recognised in profit or loss as an integral part of the total lease expenses.

Other expenses

Property taxes chargeable to Elia Transmission (Belgium) are directly recognised in full (100%) as soon as ownership is certain (generally as of 1 January of the year). However, these costs, qualified as non-controllable costs in the regulatory framework, are recorded as revenue through the settlement mechanism for the same amount, resulting in a zero profit or loss impact.

FINANCE INCOME AND EXPENSES

Finance expenses comprise interest payable on borrowings, calculated using the effective interest rate method, foreign-exchange losses, gains on currency hedging instruments offsetting currency losses, results on interest-rate hedging instruments, losses on hedging instruments that are not part of a hedge accounting relationship, losses on financial assets classified as for trading purposes and impairment losses on available-for-sale financial assets as well as any losses from hedge ineffectiveness. Net finance expenses comprise interest on loans, calculated using the effective interest rate method and foreign-exchange gains and losses.

Finance income includes, amongst others, interest receivables on bank deposits, recognised in profit or loss as it accrues using the effective interest rate method.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

INCOME TAXES

Income taxes comprise current and deferred tax. Income-tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised, using the balance-sheet method, on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not be reversed in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising from initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they are intended to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is likely that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer likely that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

3.6. Statement of comprehensive income and statement of changes in equity

The statement of comprehensive income presents an overview of all revenues and expenses recognised in the consolidated statement of profit or loss and in the consolidated statement of changes in equity. The Group has elected to present comprehensive income using the two-statement approach, i.e. the statement of profit or loss immediately followed by the statement of other comprehensive income. As a result of this presentation, the content of the statement of changes in equity is restricted to owner-related changes.

4. Segment reporting

4.1. Basis for segmentation

The Group has opted for a geographical segmentation since this segmentation forms the basis for the Company's internal management reporting and enables the Chief Operating Decision-Maker (CODM) to evaluate and assess the type and financial profile of its activities in a transparent way.

Pursuant to IFRS 8, the Group has identified the following operating segments based on the aforementioned criteria:

- Elia Transmission (Belgium), which comprises Elia System Operator NV/SA and the companies whose activities are directly linked to the role of Belgian transmission system operator (Elia Asset NV/SA, Elia Engineering NV/SA, Elia Re SA, HGRT SAS, Coreso NV/SA, Ampacimon SA and Enervalis NV);
- 50Hertz Transmission (Germany), which comprises Eurogrid International CVBA/SCRL and companies whose activities are directly linked to the role of transmission system operator in Germany (Eurogrid GmbH, 50Hertz Transmission GmbH, 50Hertz Offshore GmbH and Gridlab GmbH);
- Atlantic Grid, comprising E-Offshore A LLC and Atlantic Grid Investment A Inc, who are connected to the Atlantic Wind Connection project which aims to develop the first high-voltage direct current offshore grid off the East Coast of the United States;
- EGI (Elia Grid International NV/SA and Elia Grid International GmbH), both companies supplying specialists in consulting, services, engineering and procurement, creating value by delivering solutions based on international best practice, while fully complying with regulated business environments;
- Nemo (Nemo Link Ltd), linked to the Nemo project, which will connect the UK and Belgium using high-voltage electricity cables, enabling power to be exchanged between the two countries.

Under IFRS 8, the Group is required to report segment information about each operating segment that exceeds certain quantitative thresholds. Since the operational activities of Atlantic Grid, EGI and Nemo do not exceed the thresholds, the operations of Atlantic Grid have been aggregated in the reporting segment 50Hertz Transmission (Germany) and the operations of EGI and Nemo in the reporting segment of Elia Transmission (Belgium) as their activities are regularly evaluated by the respective CODMs for those segments.

The two operating segments have also been identified as the Group's cash-generating units, as the group of assets managed by the segments independently generates cash flows.

The CODM has been identified by the Group as being the Boards of Directors, the CEOs and the Management Committees of each segment. The CODM periodically reviews the performance of the Group's segments using various indicators such as revenue, EBITDA and operating profit.

The company's geographical segments are mainly characterised by common revenue and cost drivers and the same public service mission in their respective geographical area, but differ from each other mainly in terms of country- specific regulatory frameworks. For more details about this topic, please see Note 9: 'Regulatory framework and tariffs'.

The information presented to the CODM follows the Group's IFRS accounting policies and therefore no reconciling items have to be disclosed.

4.2. Elia Transmission (Belgium)

The table hereafter shows the 2017 consolidated results of Elia Transmission (Belgium)

Elia Transmission key figures (in million EUR) – Year ended 31 December	**2017**	**2016**	**Difference (%)**
Total revenues and other income	887.5	868.1	2.2%
Depreciation, amortisation, impairment and changes in provisions	(130.8)	(130.0)	0.6%
Results from operating activities	235.9	216.6	8.9%
Share of profit of equity accounted investees, net of tax	0.6	3.1	(80.6%)
EBIT	236.5	219.6	7.7%
EBITDA	367.3	349.6	5.1%
Finance income	5.5	7.0	(21.4%)
Finance costs	(81.9)	(89.9)	(8.9%)
Income tax expense	(39.1)	(32.0)	22.2%
Profit attributable to the owners of the Company	121.0	104.5	15.8%
Consolidated statement of financial position (in million EUR)	**31 December 2017**	**31 December 2016**	**Difference (%)**
Total assets	5,765.1	5,463.6	5.5%
Capital expenditure	388.1	406.9	(4.6%)
Net financial debt	2,689.1	2,557.3	5.2%

EBITDA (Earnings Before Interest and Taxes, Depreciations and Amortisations) = EBIT + depreciation/amortisation + changes in provisions

In early 2016, the new tariff methodology approved by regulator CREG on 26 November 2015, came into force. The methodology is again applicable for a four-year period and introduces some new elements compared with the previous methodology which was applicable from 2012 until 2015. The most important changes are 1) the way the allowed net profit is built up, which is now more closely linked to operational performance, 2) the structure of the tariffs, which still use a 'cost plus' methodology, and 3) the definition of the cost categories: reservation costs of ancillary services (except black start) are classified as 'influenceable costs' (and no longer as 'non-controllable costs') and are eligible for an incentive within predefined limits. Finally, tariffs are no longer fixed for a four-year period, but annual tariffs are agreed within the four-year time frame. For more information about the new regulated framework, see Note 9.1.

Financial

Elia Transmission's revenue was up 2.2% on the same period the previous year, to €887.5 million. The increase in revenues is a result of a higher authorised regulated net profit, higher depreciations and higher taxes that are passed on into revenues. These increases were patly offset by lower costs, mainly for ancillary services and financing, which are all passed on into revenues, benefitting consumers and offsetting the lower revenues generated by Elia Grid International (EGI).

The table below provides more details of changes in the various revenue components:

(in million EUR)	2017	2016	Difference (%)
Revenues according to old tariff mechanism	0.0	(1.3)	n/a
Grid connection	42.2	40.8	3.3%
Management and development of grid infrastructure	479.2	476.8	0.5%
Management of the electrical system	118.5	118.1	0.4%
Compensation for imbalances	170.7	146.4	16.6%
Market integration	24.3	23.5	3.3%
International revenue	47.3	38.9	21.4%
Other income (including EGI revenues)	97.5	105.8	(7.8%)
Subtotal revenues and other income	979.8	949.1	3.2%
Settlement mechanism: deviations from approved budget	(92.3)	(81.0)	14.0%
Total revenues and other income	**887.5**	**868.1**	**2.2%**

Grid connection revenues increased slightly to €42.2 million (up 3.3%) as a result of a tariff increase as well as an increase in the number of connected assets.

Revenues from **management and development of grid infrastructure** (up 0.5%) and **management of the electrical system** (up 0.4%) remained fairly stable.

Services rendered in the context of energy management (including black start) and individual balancing of balancing groups are paid as part of the **revenues from compensation for imbalances**. These revenues increased by 16.6% to €170.7 million, largely due to the tariff increase for energy management (up €13.7 million) and because of higher revenues from compensation for imbalances as a result of higher congestion (up €10.8 million).

Finally, the last section of the tariff revenues encompasses the services that Elia Transmission provides within the context of **market integration**, which increased slightly (up 3.3%) to €24.3 million.

International revenue increased by €8.4 million (up 21.4%), due to the higher congestion on the borders in early 2017 resulting from a lack of production in France and lower generation levels in Belgium at the year-end.

Other income decreased by €8.3 million (down 7.8%) compared with the same period the previous year to €97.6 million. This was driven principally by EGI revenues, which decreased from €19.7 million to €9.7 million, as fewer owner's engineering services were provided in 2017 than the previous year.

The **settlement mechanism** (€92.3 million) encompasses the deviation in the current year from the budget approved by CREG. The operating surplus, in relation to the budget of the costs and revenues authorised by the regulator, must be returned to consumers and therefore does not form part of the revenues. The operational surplus compared with the budget is primarily a result of the higher tariff sales (€13.0 million), increased cross-border revenues (€4.6 million), lower costs for ancillary services (€50.9 million) and lower financial charges (€19.6 million). This was partly offset by a higher-than-budget regulated net profit (€9.2 million) and the usage of a deferred tax asset for used notional interest deduction (€11.8 million).

The reported EBITDA (up 5.1%) and EBIT (up 7.7%) were mainly impacted by increased regulated net profit, higher depreciations and lower financing costs to be passed on in the tariffs, partly offset by the lower contribution from EGI and the lower result of equity-accounted investments.

Net finance costs (down 7.7%) fell by €6.4 million compared with 2016, mainly due to the repayment of a €500-million bond in April 2016. Also, with the settlement of the fiscal claim in 2016 and the cash inflow of €176.2 million following the purchase of 2.8 million green certificates by the Walloon Region in September 2017, the financing was limited to issuing a €250-million Eurobond. Owing to strong investor interest and low market interest rates, the Eurobond had a coupon rate of 1.375%. The lower lending costs are passed on in full to consumers, in accordance with the regulatory framework.

In a nutshell, the net profit increased by 15.8% to €121.0 million, mainly due to the following items:

- increase in the fair remuneration (up €5.0 million): The higher average OLO compared to 2016 (up 0.25%) and the increase in equity due to reservation of part of the 2016 result (€40.1 million) led to a fair remuneration of €41.1 million;
- decrease in the incentives realised (down €5.2 million): Good operational performance, primarily involving the incentives linked to innovation (up €0.5 million) and the discretionary incentive (up €0.4 million), was offset by a higher average tax rate (down €1.8 million), lower performance on the incentive linked to import capacity (down €2.3 million) following a change in the regulatory reference for 2017, and lower efficiency (down €2.0 million);
- a higher mark-up for strategic investments (up €9.5 million);

- higher customer contributions for specific investments (up €4.5 million);
- no major damage to electrical facilities compared with 2016 (up €1.0 million);
- IAS 19-related changes (down €2.7 million);
- a lower result on equity-accounted investments than 2016 (down €2.5 million);
- others (down €0.9 million): a lower EGI result (down €1.5 million), a lower regulatory settlement for the previous year (down €1.7 million), higher activation of software costs (up €1.5 million) and the capitalisation of issuance costs linked to the Eurobond (up €0.7 million).

The reported net profit increased more sharply by 15.8% to €121.0 million. Following the approval of the legislation implementing the corporate income tax reform in late December 2017, Elia Transmission reassessed its deferred tax assets and liabilities according to the new future tax rates that apply to the period when the asset will be realised or the liability will be settled, leading to a non-recurring result of €12.4 million for the period.

Total assets increased by 5.5% to €5,765.1 million, mainly as a result of the investment programme. The net financial debt also increased to €2,689.1 million (up 5.2%), as Elia's sizeable CAPEX programme (€485.6 million) was mainly financed by cash flows generated from operating activities (€370.2 million), the proceeds from the sale of 2.8 million green certificates to the Walloon Region leading to a cash inflow of €176.2 million and profit reservation from prior years. In addition, Elia Transmission issued a €250-million Eurobond in late March 2017, partially offset by the reimbursement of commercial paper and an EIB loan reaching maturity in 2017 (€20 million).

The equity increased mainly as a result of the reservation of the 2017 profit, partly offset by the payment of dividends for 2016 (€96.2 million).

4.3. 50Hertz Transmission (Germany)

The table below shows the 2017 consolidated results of the 50Hertz Transmission system operator activities in Germany:

50Hertz Transmission key figures (in million EUR) – Year ended 31 December*	**2017**	**2016**	**Difference (%)**
Total revenues and other income	1,330.2	1,291,2	3.0%
Depreciation, amortisation, impairment and changes in provisions	(150.1)	(139.1)	7.9%
EBIT	321.7	237.2	35.6%
EBITDA	471.8	376.3	25.4%
Finance income	1.9	1.8	5.6%
Finance costs	(56.2)	(57.1)	(1.6%)
Income tax expense	(87.1)	(56.3)	54.7%
Profit attributable to the owners of the Company	180.2	125.6	43.5%
Consolidated statement of financial position (in million EUR)	**31 December 2017**	**31 December 2016**	**Difference (%)**
Total assets	6,196.0	5,663.6	9.4%
Capital expenditure	478.1	737.3	(35.2%)
Net financial debt	1,435.6	1,623.5	(11.6%)

* 60% of the profit attributable to the owners of the Company is included in 'Share of profit of equity-accounted investees (net of income tax) of the Group'.

50Hertz Transmission's revenue increased by 3.0% compared with 2016. This was the result of increasing revenues following the increased onshore and offshore investments, as well as higher levels of other revenues.

The table below provides more details of changes in the various revenue components:

Total revenues and other income (in million EUR)	**2017**	**2016**	**Difference (%)**
Vertical grid revenues	1,241.4	944.3	31.5%
Horizontal grid revenues	210.2	167.2	25.7%
Ancillary-services revenues	94.0	99.5	(5.5%)
Other revenues	73.5	64.9	13.3%
Subtotal revenues and other income	**1,619.1**	**1,275.9**	**26.9%**
Settlement mechanism: deviations from approved budget	(288.9)	15.3	n/a
Total revenues and other income	**1,330.2**	**1,291.2**	**3.0%**

Vertical grid revenue (tariffs to end customers) increased by €297.1 million primarily as a result of the increase in the total allowed revenues by the regulator. The allowed non-controllable costs for energy (up €353.6 million) to be passed on in the tariffs, which are updated each year, were impacted by a newly introduced allowance for renewable energy (RES) curtailment costs, as well as the recovery of the substantial 2015 tariff deficits for energy costs. Furthermore, following the ongoing investment programme, there was an increased allowed cost recovery for investments (up €16.4 million).

Horizontal grid revenues increased by €43.0 million compared with 2016, mainly due to higher congestion income (up €7.0 million) and higher offshore costs charged to other TSOs (up €33.7 million). In Germany, all offshore connection costs are shared among the four German transmission system operators. This means that 50Hertz bears around 20% of these costs and passes on 80% of its own connection costs to the other three TSOs. Due to the increasing offshore investments, which in 2017 related mainly to the offshore grid connection of Ostwind 1, the cost recovery charged horizontally to the other TSOs is rising and thus impacting the horizontal revenues.

Ancillary services revenues fell slightly, decreasing by €5.5 million. Cross-border redispatch revenues dropped sharply with the commissioning of phase-shifting transformers at the Czech border. This was partly compensated by higher revenues from balancing groups, as higher costs for control energy were passed on to the balancing-group owners.

The **settlement mechanism** includes both the annual offsetting of deficits and surpluses arising accounted for before 2017 (-€162.1 million) and the net surplus generated in 2017 between the costs allowed to be passed on in the tariffs and actual costs (-€126.8 million). The operational surplus in 2017 results mainly from the lower real energy costs as a result of favourable weather conditions and preventative grid measures.

The EBITDA increased to €471.8 million (up 25.4%) mainly as a result of both onshore and offshore investment activities (up €38.7 million) and lower operational expenditure (up €72.4 million). Material costs dropped significantly mainly due to lower maintenance costs, after peaking in the maintenance activity cycle in 2016. Furthermore, due to the substantial investment programme and the lower rate of maintenance activities, a higher portion of personnel costs could be allocated to new investments leading to higher own-work capitalised revenues than 2016. EBIT (up 35.6%) was further impacted by the increased depreciations as a result of the commissioning of the Southwest Coupling Line and the North Ring during 2017. Taking into account the non-recurring energy bonus realised in 2017 (€4.8 million), which was down from 2016 (€7.6 million), and non-recurring regulatory settlements (-€4.6 million), the reported EBIT came in at €321.7 million.

The net profit increased by 43.5% to €180.2 million as a result of:

- a growing asset base driven by the ongoing investment programme, leading to a higher onshore (up €17.4 million) and offshore (up €21.3 million) remuneration;
- lower OPEX and other costs (up €72.4 million);
- increased depreciation (down €11.5 million) driven by commissioning of investments;
- reduced net finance costs (up €2.3 million), with the full-year effect of the €750-million debt capital market transaction concluded in April 2016 offset by lower interest on provisions;
- increased income-tax expense (down €35.6 million).

Total assets increased by 9.4% to €6,196.0 million, mainly due to a favourable development of the EEG cash and the investments made.

50Hertz ended the year with a positive free cash flow of €283.8 million linked to the positive EEG cash flows and the remuneration of the 2015 energy costs, recovered in 2017. Consequently, the net financial debt decreased to €1,435.6 million compared with the end of 2016. The net debt includes an EEG cash position of €775.7 million.

4.4. Reconciliation of information on reportable segments to IFRS amounts

Consolidated results (in million EUR) – Year ended 31 December	2017 Elia Transmission (Belgium) (a)	2017 50Hertz Transmission (Germany) (b)	2017 Consolidation entries and intersegment transactions (c)	2017 Elia Group (a)+(b)+(c)
Total revenues and other income	887.5	1,330.2	(1,330.2)	887.5
Depreciation, amortisation, impairment and changes in provisions	(130.8)	(150.1)	150.1	(130.8)
Results from operating activities	235.9	321.7	(321.7)	235.9
Share of profit of equity-accounted investees, net of tax	0.6	0.0	108.1	108.7
EBIT	236.5	321.7	(213.6)	344.6
EBITDA	367.3	471.8	(363.6)	475.5
Finance income	5.5	1.9	(1.9)	5.5
Finance costs	(81.9)	(56.2)	56.2	(81.9)
Income tax expense	(39.1)	(87.1)	87.1	(39.1)
Profit attributable to the owners of the Company	**121.0**	**180.2**	**(72.1)**	**229.1**

Consolidated statement of financial position (in million EUR)	31 Dec 2017	31 Dec 2017	31 Dec 2017	31 Dec 2017
Total assets	5,765.1	6,196.0	(5,364.6)	6,596.5
Capital expenditure	388.1	478.1	(478.1)	388.1
Net financial debt	2,689.1	1,435.6	(1,435.6)	2,689.1

Consolidated results (in million EUR) – Year ended 31 December	2016 Elia Transmission (Belgium) (a)	2016 50Hertz Transmission (Germany) (b)	2016 Consolidation entries and intersegment transactions (c)	2016 Elia Group (a)+(b)+(c)
Total revenues and other income	868.1	1,291.2	(1,291.2)	868.1
Depreciation, amortisation, impairment and changes in provisions	(130.0)	(139.1)	139.1	(130.0)
Results from operating activities	216.6	237.2	(237.2)	216.6
Share of profit of equity-accounted investees, net of tax	3.1	0.0	75.3	78.4
EBIT	219.6	237.2	(161.8)	295.0
EBITDA	349.6	376.3	(300.9)	425.0
Finance income	7.0	1.8	(1.8)	7.0
Finance costs	(89.9)	(57.1)	57.1	(89.9)
Income tax expense	(32.0)	(56.3)	56.3	(32.0)
Profit attributable to the owners of the Company	**104.5**	**125.6**	**(50.2)**	**179.9**

Consolidated statement of financial position (in million EUR)	31 Dec 2016	31 Dec 2016	31 Dec 2016	31 Dec 2016
Total assets	5,463.6	5,663.6	(4,885.6)	6,241.6
Capital expenditure	406.9	737.3	(737.3)	406.9
Net financial debt	2,557.3	1,623.5	(1,623.5)	2,557.3

There are no significant intersegment transactions.

The Group has no concentration of customers in either of the operating segments.

5. Equity-accounted investees

5.1. Joint ventures

Eurogrid International CVBA is a joint venture of the Group. The Company was established by the Group together with IFM Investors (UK) Ltd to acquire 50Hertz Transmission GmbH, one of the four German transmission system operators. The Group has a stake of 60% in the joint venture. Eurogrid International is a private entity that is not listed on any public exchange.

Eurogrid International and its subsidiaries (see Note 8.5) together form the segment 50Hertz Transmission (Germany). See Note 4.3.

The following table summarises the financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount for the Group's interest in the consolidated financial statements.

(In million EUR)	2017	2016
Percentage ownership interest	**60.00%**	**60.00%**
Non-current assets	4,580.4	4,238.6
Current assets	1,615.6	1,425.1
Non-current liabilities	3,096.6	3,188.7
Current liabilities	1,714.0	1,178.6
Equity	1,385.4	1,296.4
Group's carrying amount for the interest	**831.3**	**777.8**
Revenues and other income	1,330.2	1,291.2
Depreciation and amortisation	(149.8)	(138.3)
Net finance result	(54.4)	(55.4)
Profit before income tax	267.3	181.9
Income-tax expense	(87.1)	(56.3)
Profit for the year	180.2	125.6
Total comprehensive income for the year	180.2	125.6
Group's share of profit for the year	**108.1**	**75.4**
Dividends received by the Group	55.9	55.6

Since February 2015, Elia and National Grid have had a joint venture, Nemo Link Ltd, in place for the construction of an interconnector between Belgium and the UK. This project consists of subsea and underground cables connected to a converter station and an electricity substation in each country, which will allow electricity to flow in either direction between the two countries and will give UK and Belgium improved reliability and access to electricity and sustainable generation. The two companies have an equal ownership percentage. The figures of this joint venture are incorporated into the Belgian segment (see Note 4.2). In 2017, Elia injected €56.4 million in capital into Nemo Link Ltd.

The following table summarises the financial information of the joint venture, based on its IFRS financial statements and reconciliation with the carrying amount for the Group's interest in the consolidated financial statements.

(In million EUR)	2017	2016
Percentage ownership interest	**50.0%**	**50.0%**
Non-current assets	490.7	242.4
Current assets	63.7	29.2
Non-current liabilities	297.1	111.6
Current liabilities	72.3	85.0
Equity	185.0	74.9
Group's carrying amount for the interest	**92.5**	**37.5**
Revenues and other income	0.0	0.0
Depreciation and amortisation	0.0	0.0
Net finance result	(0.1)	(0.2)
Profit before income tax	(0.1)	(0.3)
Income tax	(2.6)	3.0
Profit for the year	(2.7)	2.7
Total comprehensive income for the year	(2.7)	2.7
Group's share of profit for the year	**(1.4)**	**1.4**
Dividends received by the Group	0.0	0.0

5.2. Associates

The Group has four associates, all of which are equity-accounted investees.

The Group acquired a 12.5% interest in Enervalis NV during the year. This is a start-up that develops innovative software-as-a-service solutions that will allow market players to optimise their energy bills while helping to meet the growing need for flexibility in the electricity system. A representative of the Group has been appointed a member of Enervalis's Board of Directors. Therefore the Group considers to have a significant influence and Enervalis is, as such, accounted for using the equity method.

The Group has a 20.5% interest in Ampacimon SA, a Belgian company working on developing innovative monitoring systems provided to TSOs and distribution system operators (DSOs) so that they can more quickly anticipate on changes in energy supply and demand. On 31 January 2017, the Group acquired 128 additional shares from the previous shareholders.

The Group has a 20.6% interest in Coreso NV/SA, a company which provides coordination services aimed at facilitating the secure operation of the high-voltage electricity system in seven countries. During the year, the Group transferred 127 shares to new shareholders; 63 of these shares were held by entities in the German segment.

HGRT SAS is a French company with a 49.0% stake in Epex Spot, the exchange for power spot trading in Germany, France, Austria, Switzerland, Luxembourg and (through its 100% associate APX) the UK, Netherlands and Belgium. The Group itself holds a 17.0% stake in HGRT. As one of the founding partners of HGRT, the Group has a 'golden share', enabling the Group to have a minimum number of representatives on the Board of Directors. This constitutes a significant influence and therefore HGRT is accounted for using the equity method.

In 2017, the Group received a dividend of €0.9 million from HGRT (€1.7 million in 2016).

None of these companies are listed on any public exchange.

The following table illustrates the summarised financial information of the Group's investment in these companies, based on their respective financial statements prepared in accordance with IFRS.

(in million EUR)	Enervalis		Ampacimon		Coreso		HGRT	
	2017	2016	2017	2016	2017	2016	2017	2016
Percentage ownership interest	**12.5%**	**0.0%**	**20.5%**	**19.6%**	**20.6%**	**21.7%**	**17.0%**	**17.0%**
Non-current assets	0.3	-	0.2	0.0	3.1	2.3	93.0	93.4
Current assets	1.4	-	5.8	4.8	2.5	2.3	7.2	1.5
Non-current liabilities	0.0	-	0.1	0.1	0.0	0.0	0.0	0.0
Current liabilities	0.3	-	2.8	1.9	3.2	2.5	0.1	0.0
Equity	1.3	-	3.1	2.8	2.4	2.2	100.2	94.9
Group's carrying amount for the interest	**0.7**	**-**	**0.6**	**0.5**	**0.4**	**0.5**	**17.0**	**16.1**
Revenues and other income	0.8	-	2.6	1.2	10.5	9.2	0.0	0.0
Profit before income tax	(1.1)	-	0.7	2.1	0.5	0.4	11.0	8.1
Income-tax expense	0.0	-	(0.3)	(0.1)	(0.2)	(0.2)	(0.2)	(0.5)
Profit for the year	(1.1)	-	0.4	1.9	0.2	0.2	10.8	7.6
Total comprehensive income for the year	(1.1)	-	0.4	1.9	0.2	0.2	10.8	7.6
Group's share of profit for the year	**0.0**	**-**	**0.1**	**0.4**	**0.0**	**0.0**	**1.8**	**1.3**

6. Items in the consolidated statement of profit or loss and other comprehensive income

6.1. Revenue

(in million EUR)	2017	2016
Revenue	806.4	785.1
Transfers of assets from customers	22.1	15.1
Total revenue	**828.5**	**800.1**

We refer to the segment reporting for a breakdown of the significant categories within the revenue of the Belgian segment (Note 4.2).

6.2. Other income

(in million EUR)	2017	2016
Services and technical expertise	0.0	5.7
Own production	25.5	19.2
Optimal use of assets	14.3	14.4
Other	18.2	28.5
Gain on sale PPE	1.0	0.2
Other operating income	**59.0**	**68.0**

The Group's own production relates to time worked on investment projects by own employees. The €6.3-million increase is mainly due to the increase in capital expenditure and the completion of the Stevin project. This last phase required a lot of testing and human intervention to ensure that the project could be operational in time.

The optimal use of assets mainly represents income generated from contracts with telecom operators, where pylons and dark fibres are made available as a support to their mobile network.

The section 'Other' has decreased by €10 million. This is mainly due to the one-off impact in 2016 of the Nemo development costs. Those development costs (€8.8 million) were invoiced to Nemo Link Ltd in 2016.

6.3. Operating expenses

COST OF MATERIALS, SERVICES AND OTHER GOODS

(in million EUR)	2017	2016
Raw materials, consumables and goods for resale	9.6	18.8
Purchase of ancillary services	140.2	133.2
Services and other goods (excl. purchase of ancillary services)	204.2	203.5
Total	**354.0**	**355.4**

The decrease in raw materials, consumables and goods for resale is primarily driven by EGI GmbH. In 2016, substantial costs were incurred by a number of projects where key milestones were reached.

Purchase of ancillary services includes the costs for services which enable the Group to balance generation with demand, to maintain constant voltage levels and to manage congestion on its grids. The cost incurred in 2017 mainly increased because of the number of activations needed to guarantee a balanced grid. These were mainly a result of the colder winter period in 2017, leading to higher levels of electricity consumption, as well as of increased electricity generation by wind energy, which had an effect on overall production.

Services and other goods are related to maintenance of the grid, services provided by third parties, insurance and consultancy, among others.

PERSONNEL EXPENSES

(in million EUR)	2017	2016
Salaries and wages	101.6	94.2
Social security contributions	26.2	25.1
Pension costs	7.2	12.7
Other personnel expenses	9.9	7.9
Share-based payment	0.1	1.0
Employee benefits (excl. pensions)	2.2	3.0
Total	**147.2**	**143.9**

In March 2017, Elia Group gave its employees in Belgium the chance to subscribe to an Elia System Operator SA capital increase. The capital increase resulted in the creation of 9,861 additional shares without nominal value. The Group's employees were granted a 16.66% reduction on the quoted share price, which resulted in a €0.1-million reduction overall. The transaction resulted in a €0.3-million capital increase and a €0.1-million increase in the share premium.

Elia Group had 1,333.2 FTEs on 31 December 2017 as opposed to 1,268.5 FTEs at the end of 2016, i.e. a 7.4% increase.

For more information regarding pension costs and employee benefits, see Note 7.12: Employee benefits.

DEPRECIATION, AMORTISATION, IMPAIRMENT AND CHANGES IN PROVISIONS

(In million EUR)	2017	2016
Amortisation of intangible assets	8.0	8.5
Depreciation of property, plant and equipment	123.4	115.9
Total depreciation & amortisation	**131.3**	**124.4**
Impairment of inventories	(0.3)	0.3
Total impairment	**(0.3)**	**0.3**
Other provisions	1.3	2.9
Environmental provisions	(1.6)	2.4
Changes in provisions	**(0.4)**	**5.3**
Total	**130.8**	**130.0**

The amount of impairment on trade receivables is explained in Note 8.2: Financial risk and derivative management.

A detailed description is provided in other sections for 'Intangible assets' (see Note 7.2), 'Property, plant and equipment' (see Note 7.1) and 'Provisions' (see Note 7.13).

OTHER EXPENSES

(in million EUR)	2017	2016
Taxes other than income tax	11.9	12.9
Loss on disposal/sale of property, plant and equipment	7.5	9.1
Impairment on receivables	0.3	0.2
Other operating expenses	**19.6**	**22.2**

Taxes other than income tax mainly consist of property taxes.

6.4. Net finance costs

(in million EUR)	2017	2016
Finance income	**5.5**	**7.0**
Interest income on investment trust, cash and cash equivalents and granted loans	3.6	1.6
Other financial income	1.9	5.4
Finance costs	**(81.9)**	**(89.9)**
Interest expense on eurobonds and other bank borrowings	(68.1)	(76.4)
Interest expense on derivatives	(9.3)	(9.2)
Other financial costs	(4.5)	(4.2)
Exchange losses	(0.0)	(0.1)
Net finance costs	**(76.5)**	**(82.8)**

Interest income on investment trust, cash and cash equivalents and granted loans involves €3.6 million in interest relating to a loan agreement between Elia System Operator and Nemo Link Ltd. See Note 7.4.

The interest expenses on eurobonds and other bank borrowings decreased as a result of lower interest rates being available in the market. In 2016, a €500.0-million eurobond was repaid, subject to higher historic interest rates, with a €250.0-million eurobond being issued in March 2017. See Notes 4.2 and 8.2.

For more details of net debt and loans, see Note 7.11.

6.5. Income taxes

RECOGNISED IN PROFIT OR LOSS

The consolidated income statement includes the following taxes:

(in million EUR)	2017	2016
Current year	28.5	15.4
Adjustments for prior years	0.7	(2.9)
Total current income tax expenses	**29.2**	**12.5**
Origination and reversal of temporary differences	9.9	19.4
Total deferred taxes	**9.9**	**19.4**
Total income taxes recognised in profit and loss	**39.1**	**32.0**

The current income tax expenses increased in 2017 compared with 2016. The main reason for this were the higher profits realised in 2017 than in the financial year 2016 and the effect of the 'notional interest deduction'. The latter was not only impacted by a decreased Notional Interest Deduction percentage in the course of the year (from 1.13% in the financial year 2016 to 0.24% in the financial year 2017) but also the utilisation of all the outstanding notional interest carried forward.

The lower deferred tax charge is mainly a result of tax reform, which gave a €12.4-million positive effect on profit and loss.

RECONCILIATION OF THE EFFECTIVE TAX RATE

The tax on the Group's profit (loss) before tax differs from the theoretical amount that would arise using the Belgian statutory tax rate applicable to profits (losses) of the consolidated companies as follows:

(in million EUR)	2017	2016
Profit before income tax	268.2	212.2
Income tax expense	**39.1**	**32.0**
Income tax, using the domestic corporate income tax rate	91.2	72.1
Domestic corporate income tax	33.99%	33.99%
Effect of the foreign tax rate	(0.2)	(0.1)
Share of profit of equity-accounted investees	(37.0)	(26.7)
Non-deductible expenses	2.6	2.4
Adjustments prior years	0.7	(2.9)
Tax incentives (notional interest deduction)	(13.1)	(18.0)
Tax credit R&D	(2.3)	(5.6)
Effect of NID carried forward on regulatory balance	7.9	8.2
Fairness tax	0.0	0.6
Tax reform: deferred income tax adjustments	(12.4)	0.0
Other	1.8	1.9
Income tax expense	**39.1**	**32.0**

1 DTA = Deferred tax asset; NID = Notional Interest Deduction

The notional interest deduction (NID) decreased from the previous year. This is mainly a result of the lower NID-percentage that decreased to 0.24% in the financial year 2017, as opposed to 1.13% in the financial year 2016, and the lower tax assets with respect to notional interest carried forward.

Deferred income taxes are discussed further in Note 7.5.

6.6. Earnings per share (EPS)

BASIC EPS

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the Company (€229.1 million) by the weighted average number of ordinary shares outstanding during the year.

Weighted average number of ordinary shares	2017	2016
Ordinary shares issued on 1 January	60,891,158	60,750,239
Impact of the shares issued in December 2016		3,475
Impact of the shares issued in March 2017	7,646	
Weighted average number of shares on 31 December	**60,898,804**	**60,753,714**

DILUTED EPS

Diluted earnings per share are determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options and convertible bonds.

Diluted earnings per share are equal to basic earnings per share, since there are no share options or convertible bonds.

Share capital and reserves per share

Share capital and reserves per share totalled €43.4 per share on 31 December 2017, compared with a value of €41.4 per share at the end of 2016.

6.7. Other comprehensive income

Total comprehensive income includes both the result of the period recognised in the statement of profit or loss and the other comprehensive income recognised in equity. Other comprehensive income includes all changes in equity other than owner-related changes, which are reported in the statement of changes in equity.

Changes in fair value

(in million EUR)	2017	2016
Net changes in fair value of interest-rate swaps	6.2	5.7
Recognised in:		
Hedging reserve	6.2	5.7

The decrease in market value of the Group's interest-rate swaps can be explained by the maturity of all the existing interest-rate swap contracts in 2017. At the year-end of 2017, the Group was only engaged in two smaller foreign-currency rate swaps with a fair value of below €0.1 million.

The hedging reserve is discussed in detail in Note 8.2.

Remeasurements

The OCI had a negative impact of €10.3 million, mainly relating to defined-benefit plan actuarial gains and losses (including the impact of reimbursement rights) (also see Note 7.12). The lower OCI compared with 2016 is mainly due to the impact incurred in the current year from experience adjustments to the defined-benefit plans.

7. Items in the consolidated statement of financial position

7.1. Property, plant and equipment

(in million EUR)	Land and buildings	Machinery and equipment	Furniture and vehicles	Other tangible assets	Assets under construction	Total
ACQUISITION VALUE						
Balance at 1 January 2016	193.6	4,666.2	153.8	15.0	346.2	5,374.8
Additions	2.4	43.3	11.2	0.1	340.1	397.2
Disposals	(0.5)	(35.7)	(2.8)	(0.3)	(2.8)	(42.1)
Transfers from one heading to another	4.2	230.3	0.0	0.0	(234.6)	0.0
Balance at 31 December 2016	**199.8**	**4,904.2**	**162.2**	**14.8**	**448.9**	**5,729.9**
Balance at 1 January 2017	199.8	4,904.2	162.2	14.8	448.9	5,729.9
Additions	3.5	46.3	8.8	0.1	318.6	377.3
Disposals	(0.3)	(43.2)	(1.7)	(0.2)	(0.1)	(45.6)
Transfers from one heading to another	2.9	357.9	0.0	4.6	(365.5)	0.0
Balance at 31 December 2017	205.9	5,265.1	169.3	19.3	401.9	6,061.6
DEPRECIATION AND IMPAIRMENT						
Balance at 1 January 2016	(20.8)	(2,535.5)	(120.2)	(11.1)	-	(2,687.7)
Depreciation	(2.0)	(105.1)	(8.3)	(0.5)	-	(115.9)
Disposals	0.0	27.0	2.8	0.3	-	30.1
Balance at 31 December 2016	**(22.8)**	**(2,613.7)**	**(125.7)**	**(11.3)**	**-**	**(2,773.4)**
Balance at 1 January 2017	(22.8)	(2,613.7)	(125.7)	(11.3)	-	(2,773.4)
Depreciation	(1.9)	(110.8)	(8.6)	(2.1)	-	(123.5)
Disposals	0.1	35.6	1.7	0.2	-	37.6
Transfers from one heading to another	0.0	3.0	0.0	(3.0)	-	0.0
Balance at 31 December 2017	**(24.7)**	**(2,685.9)**	**(132.6)**	**(16.1)**	**-**	**(2,859.2)**
CARRYING AMOUNT						
Balance at 1 January 2016	172.8	2,130.6	33.6	3.9	346.2	2,687.2
Balance at 31 December 2016	177.0	2,290.5	36.5	3.5	448.9	2,956.5
Balance at 1 January 2017	177.0	2,290.5	36.5	3.5	448.9	2,956.5
Balance at 31 December 2017	181.2	2,579.3	36.7	3.2	401.9	3,202.4

A net amount of €377.3 million was invested in 2017 by Elia Transmission, mainly on upgrading high-voltage substations and laying high-voltage cables. The largest investment in 2017 was on the Stevin project: €67 million was invested in this project, mainly on substations and power lines. Investments in ALEGrO (€21.6 million), MOG (€21.7 million), Mercator-Horta (€33.5 million) and Brabo (€37.6 million) were also made in 2017.

During 2017, €8.2 million (€8.5 million in 2016) of borrowing costs have been capitalised on 2017 acquisitions, based on an average interest rate of 3.21% (4.0% in 2016).

Outstanding capital expenditure commitments are described in Note 8.3.

7.2. Intangible assets and goodwill

(in million EUR)	Goodwill	Development costs of software	Licences/ concessions	Total
ACQUISITION VALUE				

Balance at 1 January 2016	1,707.8	81.4	2.4	1,791.6
Acquired own construction capitalised	0.0	8.8	0.9	9.7
Balance at 31 December 2016	**1,707.8**	**90.2**	**3.4**	**1,801.3**
Balance at 1 January 2017	1,707.8	90.2	3.4	1,801.3
Acquired own construction capitalised	0.0	10.5	0.3	10.8
Disposals	0.0	0.0	(0.1)	(0.1)
Balance at 31 December 2017	**1,707.8**	**100.7**	**3.6**	**1,812.1**
DEPRECIATION AND IMPAIRMENT				
Balance at 1 January 2016	(0.0)	(55.0)	(1.9)	(57.0)
Amortisation	0.0	(8.2)	(0.3)	(8.5)
Balance at 31 December 2016	**(0.0)**	**(63.3)**	**(2.2)**	**(65.5)**
Balance at 1 January 2017	(0.0)	(63.3)	(2.2)	(65.5)
Amortisation	0.0	(7.6)	(0.4)	(8.0)
Balance at 31 December 2017	**(0.0)**	**(70.9)**	**(2.6)**	**(73.5)**
CARRYING AMOUNT				
Balance at 1 January 2016	1,707.8	26.4	0.5	1,734.6
Balance at 31 December 2016	1,707.8	26.9	1.1	1,735.8
Balance at 1 January 2017	1,707.8	26.9	1.1	1,735.8
Balance at 31 December 2017	1,707.8	29.8	1.0	1,738.6

Software comprises both IT applications developed by the Company for operating the grid and software for the Group's normal business operations.

During 2017, €0.2 million in borrowing costs were capitalised on 2017 acquisitions (compared with €0.1 million in 2016 on that year's acquisitions), based on an average interest rate of 3.21% (4.0% in 2016).

The goodwill, which is allocated to the CGU Elia Transmission (Belgium), relates to the following business combinations:

(in million EUR)	2017	2016
Acquisition Elia Asset - 2002	1,700.1	1,700.1
Acquisition Elia Engineering - 2004	7.7	7.7
Total	**1,707.8**	**1,707.8**

IMPAIRMENT TEST FOR CASH-GENERATING UNIT ELIA TRANSMISSION (BELGIUM) CONTAINING GOODWILL

In 2002, the acquisition of Elia Asset by the Company for €3,304.1 million resulted in a positive consolidation difference of €1,700.1 million. This positive consolidation difference was the result of the difference between the acquisition value of this entity and the carrying amount of its assets. This difference consists of various aspects such as the fact that (i) Elia was appointed as a TSO for a period of 20 years, (ii) Elia had unique resources in Belgium as Elia is the owner of the whole of the very-high-voltage network and is the owner of 94% of the high-voltage grid (or has the right to use this), and hence only Elia is entitled to put forward a development plan, and (iii) Elia had the relevant TSO know-how.

At the date of acquisition, the description or the quantification in euros of these aspects could not be performed on an objective, transparent and reliable basis and therefore, the difference could not be allocated to specific assets and was considered unallocated. Therefore, this difference has been recognised as goodwill since the initial adoption of IFRS in 2005. The regulatory framework, in particular the offsetting in the tariffs of the decommissioning of fixed assets, applicable from 2008 onwards, did not have an impact on this accounting treatment. The goodwill described above and the goodwill resulting from the acquisition of Elia Engineering in 2004 were allocated to the single cash-generating unit for the impairment test determined, since the income and expenses were generated by one activity, specifically 'regulated activity in Belgium', which will also be considered to be one cash-generating unit.

As a result, the Company assigned the carrying amount of the goodwill to one unit, the regulated activity in Belgium. Since 2004, annual impairment tests have been conducted and have not resulted in recognition of any impairment losses. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually as the higher of their fair value less cost to sell or value in use, applying the assumptions below and using the following valuation methods.

The impairment test was conducted by an independent expert and is based on the following valuation methods and applying the following assumptions (according to the fair value less cost to sell methodology):

- discounting of future cash flows and using the Regulated Asset Base (RAB) as the basis for the estimation of the terminal value;
- discounting of future dividends;
- comparison between the previously mentioned impairment methods and those used by various comparable Western European listed companies, such as Red Eléctrica de España, Enagas, Terna, Snam Rete Gas, National Grid and Fluxys;

- the market valuation based on the Company's share price.

The future cash flows and future dividend methods are based on the business plan for the period 2018-2027.

The key assumptions used for this valuation are:

- a tax rate of 29.58% for the years 2018-2019, and a tax rate of 25% thereafter;
- an unlevered beta of 0.53;
- a market-risk premium of 4.5%;
- a perpetual growth rate of 0.78%.

In addition, three different discounted cash flow (DCF) approaches were used:
1) DCF based on a fixed WACC:
- Risk-free rate: 2.5%, based on the 10-year average of the Belgian 10-year government bonds;
the levered beta calculated based on the target debt ratio of 67%;
cost of equity: 8.3%;
cost of debt pre-tax: 3.0%;
- WACC: 4.2%.

2) DCF based on a variable WACC:
variable cost of equity due to a variable levered beta (based on an unlevered beta of 0.53 and the forecast debt ratios) and a variable risk-free rate (1.7% in 2018, 2.35% in 2019, 2.60% in 2020 and 2.50% for 2021 and the years thereafter);
variable cost of debt based on the annual interest cost forecasts in the business plan (ranges between 2.4% and 3.4% in the period 2018-2027);
the WACC varying from 4.0% to 4.4%.
3) Adjusted present value (APV) method:
based on an unlevered cost of equity of 4.9%.

The independent analysis did not result in the identification of an impairment of goodwill in the financial year 2017.

With regard to the assessment of the recoverable amount, management believe, based on the analysis of the external expert and on current knowledge, that no reasonably possible change in any of the above key assumptions would cause material impairment losses.

7.3. Other financial assets

(in million EUR)	2017	2016
Immediately claimable deposits	7.1	7.1
Available for sale assets	0.2	0.2
Reimbursement rights	53.6	58.1
Total	**60.9**	**65.4**

Immediately claimable deposits are measured at fair value. The risk profile of these investments is discussed in Note 8.2.

The reimbursement rights are linked to the obligations for the retired employees falling under the interest scheme (Scheme B - unfunded plan) on the one hand and medical plan liabilities and tariff benefits (for the entire retired population) on the other (also see Note 7.12: Employee benefits). The reimbursement rights are recoverable through the regulated tariffs. The following principle applies: all incurred pension costs for 'Scheme B' retired employees and the costs linked to healthcare and tariff benefits of retired Elia staff members are defined by the regulator (CREG) as non-controllable expenses that are recoverable through the regulatory tariffs. The decrease in the carrying value of this asset is disclosed in Note 7.12: Employee benefits.

7.4. Non-current trade and other receivables

(in million EUR)	2017	2016
Loans to joint ventures	147.8	63.0
Total	**147.8**	**63.0**

As mentioned in Note 5.1, the Group has a 50% stake in the shares of Nemo Link Ltd. This company is financed by both shareholders through equity and loans. As a result, at 31 December a non-current receivable is outstanding on Nemo Link Ltd amounting to €147.8 million. Of this €147.8 million, €138.7 million is accounted for as an unsecured loan instrument with a fixed interest rate of 4% and a maturity of 25 years after the commercial operations date of the interconnector (see Note 6.4). The remaining sum of €9.1 million is a trade receivable on which both parties have agreed to extend the payment term to the time Nemo Link becomes operational (not before 2019). As a consequence, the trade receivable is classified as a non-current receivable and bears a fixed interest rate.

7.5. Deferred tax assets and liabilities

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

(in million EUR)	2017		2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Property, plant and equipment	1.2	(31.4)	1.6	(32.9)
Intangible assets	0.0	(8.4)	0.1	(9.3)
Interest-bearing loans and other non-current financial liabilities	0.0	(1.2)	1.7	0.0
Employee benefits	7.6	0.0	5.6	0.0
Notional interest deduction carried forward - previous accounting years	0.0	0.0	11.9	0.0

Deferred tax on investment grants	0.0	(1.2)	0.0	0.0
Other items	0.8	(7.3)	0.5	(6.9)
Tax asset/liability before offsetting	**9.6**	**(49.5)**	**21.3**	**(49.2)**
Offsetting of tax	(8.6)	8.6	(20.4)	20.4
Net tax asset/(liability)	**1.0**	**(40.9)**	**0.8**	**(28.7)**

The changes in deferred tax assets and liabilities can be presented as follows:

CHANGES IN DEFERRED TAX ASSETS AND LIABILITIES RESULTING FROM MOVEMENTS IN TEMPORARY DIFFERENCES DURING THE FINANCIAL YEAR

(in million EUR)	Opening balance	Recognised in profit or loss	Recognised in OCI	Other	Closing balance
2016					
Property, plant and equipment	(24.4)	(7.1)			(31.4)
Intangible assets	(8.9)	(0.3)			(9.2)
Inventories	(1.0)	1.0			0.0
Interest-bearing loans and other non-current financial liabilities	4.5	0.2	(2.9)		1.7
Employee benefits	6.7	(0.8)	(0.4)		5.6
Notional interest deduction carried forward - previous accounting years	24.3	(12.4)			11.9
Other items	(6.5)	(0.0)			(6.5)
Total	**(5.1)**	**(19.4)**	**(3.3)**		**(27.9)**
2017					
Property, plant and equipment	(31.4)	1.2			(30.2)
Intangible assets	(9.2)	0.8			(8.4)
Interest-bearing loans and other non-current financial liabilities	1.7	0.3	(3.2)		(1.2)
Employee benefits	5.6	(0.3)	2.3		7.5
Notional interest deduction carried forward - previous accounting years	11.9	(11.9)			0.0
Deferred tax on investment grants				(1.2)	(1.2)
Other items	(6.5)	(0.1)			(6.5)
Total	**(27.9)**	**(9.9)**	**(0.9)**	**(1.2)**	**(39.9)**

As of 2012, a deferred tax asset has been recognised on the notional interest deduction reserve, as a result of the changes made to the mechanism of the recuperation and changes to the regulatory framework. The deferred tax asset on the notional interest deduction reserve further decreased by €11.9 million to nil as at 31 December 2017. This significant reduction can be explained by the continued decline in the notional interest deduction rate for the financial year 2017, which ultimately resulted in the all the remaining reserves carried forward being used.

The deferred tax on investment grants relates to a deferred tax liability for grants received. The deferred tax liability was recognised against the payment received and, as such, did not have an impact on OCI or profit and loss.

On 25 December 2017, the Belgian government published a tax reform law. This law envisages, among other things, a decrease in the corporation-tax rate from 33.99% to 29.58% in the financial years 2018 and 2019 and a further decrease to 25% in the financial year 2020. The effect of this law has been considered in the measurement of the deferred tax liabilities as at 31 December 2017, resulting in a positive €12,4m effect on the statement of profit and loss and an €2.4-million offsetting effect on other comprehensive income.

IMPACT OF THE TAX REFORM ON PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

(in million EUR)	2017	
	Recognised in profit or loss	Recognised in OCI
Temporary differences	176.5	(26.6)
Deferred tax, at taxes rates applicable for financial year 2017	58.8	(9.0)
Deferred tax, at new rates	46.4	(6.6)
Effect of tax reform	**(12.4)**	**2.4**

UNRECOGNISED DEFERRED TAX ASSETS OR LIABILITIES

As at 31 December 2017, there were no unrecognised deferred tax assets.

Within the Elia Group there is no formal policy regarding dividend distributions by subsidiaries. The Elia Group joint ventures will not distribute their profits until they obtain the consent of all venture partners, in other words the Group controls the timing of the reversal of the related taxable temporary differences, but management are confident that they will not be reversed in the foreseeable future. In this respect, the Group is no longer subject to an (unrecognised) deferred tax liability (this amounted to €3.3 million in 2016) considering that as part of the tax reform, dividends received from subsidiaries will become fully tax exempt for the parent company.

7.6. Inventories

(in million EUR)	2017	2016

Raw materials and consumables	27.6	37.0
Write-downs	(14.0)	(14.3)
Total	**13.6**	**22.6**

The warehouse primarily stores replacement and spare parts for maintenance and repair work on the Group's high-voltage substations, overhead lines and underground cables. It also included work-in-progress balances.

The decrease of inventories is mainly due to a decreased work-in-process balance for Elia Grid International compared with the financial year 2016, as a result of the completion of a substantial project throughout 2017.

Write-downs are recorded following the non-utilisation of stock-items based on their underlying rotation. These were slightly lower than in 2016.

7.7. Current trade and other receivables, deferred charges and accrued revenues

(in million EUR)	2017	2016
Construction contracts in progress	3.9	4.2
Trade and other receivables and advance payments	227.2	221.7
Levies	20.6	139.9
VAT and other taxes	24.2	6.8
Other	5.2	7.0
Deferred charges and accrued revenues	9.5	6.1
Total	**290.6**	**385.7**

Trade receivables are non-interest-bearing and are generally have terms of 15 to 30 days.

Construction contracts in progress remained stable at €3.9 million as opposed to €4.2 million the previous year. Those construction contracts in progress mainly arise from EGI's business.

The decrease in levies is mainly due to:

- a lower outstanding balance of green certificates with regard to the Walloon Region (decrease from a receivable of €91.7 million at the year-end of 2016 to a payable of €49.1 million at the year-end of 2017). The decrease is mainly due to the purchase of 2.8 million green certificates by the Walloon Region in September 2017, as approved by the Decree of 29 June 2017. This resulted in a cash inflow of €176.2 million (please also see Note 8.3 in this regard). This transaction had no impact on the Group's profit-and-loss statement;
- a decrease of €29.8 million relating to Flemish green certificates; this was a result of an upward adjustment in the tariffs to be charged in 2017 and increased sales volumes on auctions over the financial year 2017; and
- the fact that these were partially compensated by a higher outstanding amount of levies to cover the costs for the Strategic Reserve (increase from €2.3 million to €9.3 million in 2017).

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables are shown in Note 8.2.

At 31 December, the ageing analysis of trade and other receivables and advance payments is as follows:

(in million EUR)	2017	2016
Not past due	218.7	200.4
Past due 0-30 days	0.8	10.0
Past due 31-60 days	2.9	3.8
Past due 61 days - one year	2.8	5.7
More than one year	1.6	1.6
Total (excl. impairment)	**226.8**	**221.5**
Doubtful amounts	1.7	1.3
Amounts of write-offs	(1.3)	(1.1)
Total	**227.2**	**221.7**

7.8. Current tax assets

(in million EUR)	2017	2016
Tax receivables	3.8	2.8
Total	**3.8**	**2.8**

The tax receivables have remained in line with the previous year. The €3.8 million in tax receivables at 31 December 2017 mainly relate to 2017 advances on corporation tax to be recovered in the financial year 2018.

7.9. Cash and cash equivalents

(in million EUR)	2017	2016
Call deposits	55.2	22.5
Balance at bank	140.0	154.1
Total	**195.2**	**176.6**

Cash and cash equivalents have increased in the course of the year. This increase was mainly driven by the higher profitability during the year, as well as by the €176.2-million cash inflow which resulted from the 2.8 million green certificates that were sold in September 2017 (Note 8.3). This effect has partially been offset by a continued high level of capital expenditure in the electricity grid.

Short-term call deposits are invested for periods varying from a few days and a few weeks to several months (generally not exceeding three months), depending on immediate cash requirements, and earn interest in accordance with the interest rates for the short-term deposits. The interest rate of interest-bearing investments at the end of the reporting period varies from 0.00% to 0.10%.

Bank-account balances earn or pay interest in line with the variable rates of interest on the basis of daily bank deposit interest rates. The Group's interest-rate risk and the sensitivity analysis for financial assets and liabilities are discussed in Note 8.2.

The cash and cash equivalents disclosed above and in the statement of cash flows include €29.0 million held by Elia RE. These deposits are subject to regulatory restrictions and are therefore not directly available for general use by the other entities within the Group.

7.10. Shareholders' equity

SHARE CAPITAL AND SHARE PREMIUM

Number of shares	2017	2016
Outstanding on 1 January	60,891,158	60,750,239
Issued against cash payment	9,861	140,919
Number of shares (end of period)	**60,901,019**	**60,891,158**

The extraordinary shareholders' meeting of 17 May 2016 decided to execute a capital increase in two steps/periods (one in 2016 for a maximum of €5.3 million and the other in 2017 for a maximum of €0.7 million) for a total maximum amount of €6.0 million for its Belgian employees.

In December 2016, the Elia Group gave its employees in Belgium the opportunity to subscribe to an Elia System Operator SA capital increase (tax and non-tax tranches) which resulted in a €4.4-million increase (including the cost for the capital increase amounting to €0.9 million) in the share capital and simultaneously in a €1.8-million increase in share premium.

The second tranche of this capital increase (tax tranche) for the Group's Belgian employees was implemented in March 2017 and involved €0.4 million, consisting of a €0.3-million capital increase and a €0.1-million increase in share premium. As part of this second tranche, 9,861 new shares were issued.

RESERVES

In line with Belgian legislation, 5% of the Company's statutory net profit must be transferred to the legal reserve each year until the legal reserve represents 10% of the capital. As at 31 December 2017 the Group's legal reserve amounts to €173.0 million and represents 10% of the capital.

The Board of Directors can propose the payout of a dividend to shareholders up to a maximum of the available reserves and the profit carried forward from previous financial years of the Company, including the profit for the financial year ended 31 December 2017. Shareholders must approve the dividend payment at the Annual General Meeting of Shareholders.

HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash-flow hedging instruments with regard to hedged transactions that have not yet occurred.

DIVIDEND

After the reporting date, the Board of Directors will put forward the dividend proposal indicated below.

Dividend	2017	2016
Per ordinary share entitled to dividend	1.62	1.58

At the General Meeting of Shareholders on 16 May 2017, the Board of Directors proposed the payout of a gross dividend of €1.58 per share, which yields a net dividend of €1.1106 per share, yielding a total amount of €96.2 million.

The Board of Directors' meeting of 22 February 2018 proposed a gross dividend of €1.62 per share. This dividend is subject to approval by shareholders at the Annual General Meeting on 15 May 2018 and is not included as a liability in the consolidated financial statements of the Group.

The total dividend, calculated based on the number of shares outstanding on 22 February 2018, corresponds to a total of €98.7 million.

7.11. Interest-bearing loans and borrowings

(In million EUR)	2017	2016
Non-current borrowings	2,834.7	2,586.4
Subtotal non-current borrowings	**2,834.7**	**2,586.4**
Current borrowings	0,0	100.0
Accrued interest	49.5	47.5
Subtotal current loans and borrowings	**49.5**	**147.5**
Total	2,884.2	2,733.9

See Note 7.18 for an explanation of the changes in interest loans and borrowings.

The net increase in interest-bearing loans and borrowings is explained by the issuance of a new €250-million eurobond in March 2017, as well as the repayment of the European Investment Bank loan (€20.0 million) and the dematerialised treasury notes (€78.0 million), as those loans matured in financial year 2017.

Information concerning the terms and conditions of the outstanding interest-bearing loans and borrowings is given below:

(in million EUR)	Maturity	Amount	Interest rate before hedging	Interest rate after hedging	Current proportion - fixed	Current proportion - variable
Shareholders' loan	2022	495.8	0.89%	0.89%	0.00%	100.00%
Eurobond issues 2004/15 years	2019	499.8	5.25%	5.25%	100.00%	0.00%
Eurobond issues 2013/15 years	2028	547.4	3.25%	3.25%	100.00%	0.00%
Eurobond issues 2013/20 years	2033	199.4	3.50%	3.50%	100.00%	0.00%
Eurobond issues 2014/15 years	2029	346.5	3.00%	3.00%	100.00%	0.00%
Eurobond issues 2015/8.5 years	2024	498.4	1.38%	1.38%	100.00%	0.00%
Eurobond issues 2017/10 years	2027	247.4	1.38%	1.38%	100.00%	0.00%
Total		**2,834.7**			**82.51%**	**17.49%**

Information concerning the contractual maturities of the Group's interest-bearing loans and borrowings (current and non-current) is given below.

(in million EUR)	Face value	Less than 1 year	1 - 2 years	3 - 5 years	More than 5 years
Shareholders' loan	495.8			495,8	
Eurobond issues	2,350.0		500,0		1.850,0
Total	**2,845.8**		**500,0**	**495,8**	**1.850,0**

The following covenants are required for the eurobonds issued under the €3-billion EMTN programme and the back-up facilities:

(i) The company will not grant any security interest (i.e. any mortgage, charge, pledge, lien or other form of encumbrance or security interest; a personal guarantee or suretyship does not constitute a 'security interest') to secure any relevant debt of any person or to secure any guarantee of or indemnity in respect of any relevant debt of any person.

(ii) The Company shall ensure that none of its material subsidiaries grant any security interest to secure any relevant debt of any person or to secure any guarantee of or indemnity in respect of any relevant debt of any person.

(iii) The Company will and shall ensure that its material subsidiaries will ensure that no other person grants any security interest to secure any of the company's, or any of its material subsidiaries', relevant debt or to secure any guarantee of or indemnity in respect of any of the Issuer's, or any of its material subsidiaries', relevant debt.

(iv) The Company will retain at least a 75% participation in Elia Asset SA/NV.

(v) The Company will keep its licence as a transmission system operator.

7.12. Employee benefits

DEFINED-CONTRIBUTION PLANS

Employees remunerated based on a 'salary scale' who were recruited after 1 June 2002 and management staff recruited after 1 May 1999 are covered by two defined-contribution pension plans (Powerbel and Enerbel).

Below we briefly describe these two defined-contribution plans:

Enerbel

This scheme is aimed at salaried employees hired after 1 June 2002.
The employee's contribution is based on a step-rate formula, being equivalent to 0.875% of the portion of the salary below a given ceiling plus 2.625% of the portion of the salary above this ceiling. This contribution is deducted each month from the employee's salary.
The employer's contribution is equivalent to 3 times the employee's contribution.

Powerbel

This scheme is aimed at managers hired on or after 1 May 1999, and those who asked to be transferred onto it when given the opportunity in 2007 and 2015.
The employee's contribution is based on a step-rate formula, being equivalent to 0.6% of the portion of the salary below a given ceiling plus 4.6% of the portion of the salary above this ceiling. This contribution is deducted monthly from the subscribers' salary.
The employer's contribution is equivalent to 4 times the employee's contribution.

The new law on occupational pension plans, published at the end of 2015, made various changes to the guaranteed return on defined-contribution plans. For payments made after 1 January 2016, this law requires employers to guarantee an average annual return of at least 1.75% over the course of a career, up to a cap of 3.75%.

For insured plans the minimum guaranteed return until 31 December 2015 still needs to be equivalent to at least 3.25% for the employer's contribution and 3.75% for the employee's contribution, with any shortfall being covered by the employer.

As a result of the above change and as mentioned in the accounting policies, all defined-contribution pension plans under the Belgian pension legislation are classified as defined-benefit plans for accounting purposes due to the legal minimum return to be guaranteed by the employer, which represents a plan amendment.

As the Belgian contribution-based promises are not back-loaded, the DBO was determined based on the Projected Unit Credit (PUC) method without any projection of future contributions. Until the end of 2015, the intrinsic value method was used. For any plan the fair value of assets equals the sum of the accrued individual reserves (if any) and the value of the collective fund(s) (if any).

The guaranteed return for 2016 amounts to 1.75% and is applied in accordance with the vertical method to all paid contributions to the pension funds and to the insurers (branch 21 products).

In 2016, it was decided to offer DC-plan subscribers the option to transfer the acquired reserves guaranteed by the insurers to the pension funds in the form of a 'cash balance – best off' plan with a minimum guaranteed return of 3.25%. The reserves of all salary-scale employees have been transferred to the pension funds, following a collective labour agreement, and the vast majority of the management staff have individually opted to transfer their reserves as well. For further details, please see the section 'Defined-benefit plans' below.

In 2017, further transfers from the existing bonus pension plan and seniority premium plan were offered. All the members of staff eligible for such a transfer have opted to transfer their reserves into a 'cash balance – best off' plan.

Both employees' and employers' contributions are paid on a monthly basis for the base plans. The employee's contribution is deducted from the salary and paid to the insurer by the employer. The amount of future cash flows depends on wage growth.

DEFINED-BENEFIT PLANS

In Belgium, collective agreements regulate the rights of company employees in the electricity and gas industries.
These agreements provide 'pension supplements' based on the annual salary and an employee's career within a company. If the employee passes away, the supplements are partially revertible to the inheritor (wife/orphan). The benefits granted are linked to Elia's operating result. There is no external pension fund or group insurance for these liabilities, which means that no reserves are constituted with third parties. The obligations are qualified as a defined benefit.

The collective agreement determines that active staff hired from 1 January 1993 until 31 December 2001 and all managerial/executive staff hired prior to 1 May 1999 will be granted the same guarantees via a defined-benefit pension scheme (Elgabel and Pensiobel – closed plans). Obligations under these defined-benefit pension plans are funded by a number of pension funds for the electricity and gas industries and by insurance companies.

As mentioned above, the Group has transferred certain acquired reserves guaranteed by the insurers to 'Cash balance – best off' plans since 2016. The main objective of these plans is to guarantee for every subscriber a minimum guaranteed return of 3.25% on the acquired reserves until pension age. As this guarantee is an obligation by the employer, these plans represent defined-benefit plans.

Elia Transmission Belgium also has early-retirement schemes and other post-employment benefits such as reimbursement of medical expenses and price subsidies, as well as other long-term benefits (seniority payments). Not all of these benefits are funded and, in accordance with IAS 19, these post-employment benefits are classified as defined-benefit plans.

The total net liability for employee-benefit obligations is as follows:

(in million EUR)	2017	2016
Defined-benefit plans	21.2	12.1
Post-employment benefits other than pensions	63.1	63.0
Total provisions for employee benefits	**84.3**	**75.1**

In the following tables, details are given of the outstanding provision for employee benefits, with the split between pension cost ('Pensions') and non-pension costs ('Other'), which encompasses healthcare costs, tariff benefits and jubilee benefits.

(in million EUR)	Pensions		Other	
	2017	2016	2017	2016
Present value of funded defined-benefit obligation	(224.3)	(192.1)	(63.7)	(63.6)
Fair value of plan assets	203.1	179.9	0.6	0.6
Net employee benefit liability	**(21.2)**	**(12.1)**	**(63.1)**	**(63.0)**

Movement in the present value of the defined benefit obligation (in million EUR)	Pensions		Other	
	2017	2016	2017	2016
At the beginning of the period	**(192.1)**	**(160.6)**	**(63.6)**	**(59.7)**
Current service cost	(6.9)	(10.2)	(1.7)	(1.7)
Interest cost/income	(3.2)	(3.3)	(1.0)	(1.3)
Contributions from plan participants	(1.2)	0.7	0.0	0.0
Cost of early retirement	0.1	(0.3)	0.0	0.0
Including remeasurement gains/(losses) in OCI and in Statement of profit or loss, arising from				

• Changes in demographic assumptions	1.7	0.0	0.7	0.0
• Changes in financial assumptions	(0.7)	(14.6)	(0.6)	(3.3)
• Changes from experience adjustments	(16.5)	8.1	(0.2)	(0.3)
Taxes on contributions paid during the year	1.2	0.0	0.0	0.0
Past service cost	0.0	(2.6)	0.0	0.0
Payments from the plan	11.8	16.4	2.7	2.8
Settlements	0.0	0.0	0.0	(0.1)
Transfers	(18.5)	(25.8)	0.0	0.0
At the end of the period	**(224.3)**	**(192.1)**	**(63.7)**	**(63.6)**

Movements in the fair value of the plan assets (in million EUR)	**Pensions**		**Other**	
	2017	**2016**	**2017**	**2016**
At the beginning of the period	**179.9**	**139.7**	**0.6**	**0.7**
Interest income	2.8	2.9	0.0	0.0
Remeasurement gains/losses in OCI arising from:				
Return of plan assets (excluding interest income on plan assets)	2.4	8.7	(0.0)	(0.0)
Contributions from employer	9.9	17.5	1.1	2.8
Contributions from plan participants	1.2	1.8	0.0	0.0
Benefit payments	(11.8)	(16.4)	(1.1)	(2.8)
Transfers	18.5	25.8	0.0	0.0
At the end of the period	**203.1**	**179.9**	**0.6**	**0.6**
Actual return on plan assets	**23.7**	**11.6**	**(0.0)**	**(0.0)**

Amounts recognized in comprehensive income (in million EUR)	**Pensions**		**Other**	
	2017	**2016**	**2017**	**2016**
Service cost				
Current service cost	(6.9)	(9.5)	(1.7)	(1.7)
Cost of early retirement	0.1	(0.3)	0.0	0.0
Past service cost	0.0	(2.6)	0.0	0.0
Settlements	0.0	0.0	0.0	(0.1)
Actuarial gains/(losses) on defined-benefit obligation	0.0	0.0	0.5	0.0
Net interest on the net defined-benefit liability/(asset)				
Interest cost on defined-benefit obligation	(3.2)	(3.3)	(1.0)	(1.3)
Interest income on plan assets	2.8	2.9	0.0	0.0
Other	0.0	0.0	0.0	0.0
Defined-benefit costs recognised in profit or loss	**(7.2)**	**(12.7)**	**(2.2)**	**(3.0)**
Actuarial gains(/losses) on defined obligations arising from:				
1) Changes in demographic assumptions	1.7	0.0	0.2	0.0
2) Changes in financial assumptions	(0.7)	(14.6)	0.2	(3.3)
3) Changes from experience adjustments	(16.5)	8.1	(1.0)	(0.3)
Return on plan assets (excluding interest income on plan assets)	2.4	8.7	0.0	0.0
Remeasurements of net defined benefit(/liability)/asset recognised in other comprehensive income (OCI)	**(13.1)**	**2.2**	**(0.6)**	**(3.6)**
Total	**(20.3)**	**(10.5)**	**(2.8)**	**(6.7)**

(in million EUR)	2017	2016
Breakdown of defined-benefit obligation by type of plan participants	**(288.0)**	**(255.7)**
Active plan participants	(215.5)	(177.7)
Terminated plan participants with def.-benefit entitlements	(10.9)	(5.6)
Retired plan participants and beneficiaries	(61.6)	(72.4)
Breakdown of defined-benefit obligation by type of benefits	**(288.0)**	**(255.7)**
Retirement and death benefits	(224.3)	(192.1)
Other post-employment benefits (medical and tariff reductions)	(45.0)	(44.1)
Seniority payments	(18.7)	(19.5)

When determining the appropriate discount rate, the Group considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined-benefit obligation.

A stress test is performed annually. This test verifies that the minimum funding requirements are covered to deal with 'shocks' with probabilities of occurrence of 0.5%.

The members (mostly) contribute to the financing of the retirement benefits by paying a personal contribution falling into the 'defined contribution' category (step-rate formula a%t1 + b%t2) deducted each month from their salaries.

The annual balance of the defined-benefit lump sum is financed by the employer through a recurrent allowance expressed as a percentage of the total payroll of the participants. This percentage is defined by the aggregate cost method and is reviewed annually. This method of financing involves smoothing future costs over the remaining period of the plan. The costs are estimated on a projected basis (taking into account salary growth and inflation). The assumptions related to salary increase, inflation, employee turnover and age term are defined on the basis of historical data from the Company. The mortality tables used are the ones corresponding to the observed experience within the financing vehicle and take into consideration expected changes in mortality. The Group calculates the net interest on the net defined-benefit liability (asset) using the same high-quality bond discount rate (see above) used to measure the defined-benefit obligation (net interest approach). These assumptions are challenged on a regular basis.
Exceptional events (such as modification of the plan, change of assumptions and overly short coverage terms) can eventually lead to outstanding payments from the sponsor.

The defined-benefit plans expose the Company to actuarial risks such as investment risk, interest-rate risk, longevity risk and salary risk.

Investment risk

The present value of the defined-benefit plan liability is calculated using a discount rate determined based on high-quality corporate bonds. The difference between the actual return on assets and the interest income on plan assets is included in the remeasurements component (OCI). Currently the plan has a relatively balanced range of investments, as shown below:

Fair value of the plan assets per major category	2017	2016
Investments quoted in an active market	**80.74%**	**88.10%**
Shares - eurozone	15.35%	20.49%
Shares - outside eurozone	20.90%	25.23%
Government bonds - eurozone	5.10%	1.48%
Other bonds - eurozone	31.25%	21.83%
Other bonds – outside eurozone	8.14%	19.07%
Unquoted investments	**19.26%**	**11.90%**
Qualifying insurance contracts	0.00%	0.62%
Property	3.77%	4.70%
Cash and cash equivalents	1.04%	0.12%
Other	14.44%	6.45%
Total (in %)	**100.00%**	**100.00%**

Due to the long-term nature of the plan liabilities, the board of the pension fund, of which Elia Transmission (Belgium) is a member, considers it appropriate that a reasonable portion of the plan assets be invested in equity securities to leverage the return generated by the fund.

Interest risk

A decrease in the bond interest rate will increase the plan liability. However, this will be partially offset by an increase in the return on the plan's debt investments, of which approximately 95% is now invested in pension funds with an expected return of 3.6%.

Longevity risk

The present value of the defined-benefit plan liability is calculated based on the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability. The prospective mortality tables from the IA/BE have been used.

Salary risk

The present value of the defined-benefit plan liability is calculated based on the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

ACTUARIAL ASSUMPTIONS

(in % and years)	2017	2016
Discount rate		
- Pensions - defined-benefit plans and cash balance - best off plans	1.31%	between 1.36% and 1.50%
- Pensions - defined-contribution plans	between 1.77% and 1.87%	between 1.82% and 2.05%
- Other	1.72%	1.69%
Expected average salary increase (excluding inflation)	1.00%	2.00%
Expected inflation	1.75%	1.75%
Expected increase in health benefits (including inflation)	2.75%	2.75%
Expected increase in tariff advantages	1.75%	1.75%
Average assumed retirement age		
- Employee	63	63
- Manager	65	65
Mortality table used		
- Active personnel	IABE	IABE
- Inactive personnel	IABE	IABE
Life expectancy in years of a pensioner retiring at age 65:		
For a person aged 65 at closing date:		
- Male	19.9	19.9
- Female	24.0	24.0
For a person aged 65 in 20 years:		
- Male	22.3	22.3
- Female	26.0	26.0

(in years)	2017	2016
Weighted average duration of the defined-benefit obligation	9.58	9.15
Weighted average duration of the defined-contribution plans	18.43	18.96
Weighted average duration of the post-employment benefits other than pensions	14.03	13.45

The actual return on plan assets in % for 2017 was in the range of 3.31% to 5.86% (compared with a range of 3.0% to 5.6% in 2016).

The Group expects to contribute €4.5 million to its Belgian defined-benefit pension plans and €0.3 million to its Belgian defined-contribution pension plans in 2018.

Below we also provide an overview of the expected cash outflows for the DB plans over the next five years:

Future expected cash outflows	2018	2019	2020	2021	2022
- Pensions	(4.8)	(7.0)	(11.7)	(16.4)	(15.8)
- Other	(3.3)	(3.4)	(3.4)	(3.2)	(3.1)
Total (in million EUR)	**(8.1)**	**(10.4)**	**(15.1)**	**(19.5)**	**(18.9)**

There is a certain degree of uncertainty linked to the above expected cash outflows which can be explained by the following factors:

- Differences between assumptions and actual data can occur, e.g. retirement age and future salary increase.
- The above expected cash outflows are based on a closed population and therefore do not incorporate future new hires.
- The future premiums are calculated based on the last known aggregate cost rate, which is reviewed on an annual basis and varies depending on the return on plan assets, the actual salary increase as opposed to the assumptions, and unexpected changes in the population.

SENSITIVITY ANALYSIS

(In million EUR)	Increase (+)/decrease (-)
Impact on the net defined-benefit obligation of an increase in:	
Discount rate (0.5% movement)	13.9
Average salary increase - excl. inflation (0.5% movement)	(11.3)
Inflation (0.25% movement)	(5.8)
Increase in healthcare benefits (1.0% movement)	(5.2)
Increase in tariff advantages (0.5% movement)	(0.8)
Life expectancy of pensions (1 year)	(2.2)

REMEASUREMENTS OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

(In million EUR)	2017	2016
Cumulative amount at 1 January	(11.8)	(11.9)
Recognised in the period	(10.3)	0.2
Cumulative amount at 31 December	**(22.1)**	**(11.8)**

Remeasurements of post-employment benefits include the portion of 50Hertz Transmission (Germany) (joint venture) amounting to €2.1 million (€3.2 million in 2016).

The below table represents the actuarial gains and losses recognised in other comprehensive income by nature :

Remeasurements of defined-benefit obligation arising from (in million EUR):	Pensions 2017	Pensions 2016	Other 2017	Other 2016
1) Changes in demographic assumptions	1.7	0.0	0.2	0.0
2) Changes in financial assumptions	(0.7)	(14.6)	0.2	(3.3)
3) Changes from experience adjustments	(16.5)	8.1	(1.0)	(0.3)
Return on plan assets (excluding interest income on plan assets)	2.4	8.7	0.0	0.0
Remeasurements of net defined-benefit (liability)/asset recognised in other comprehensive income (OCI)	**(13.1)**	**2.2**	**(0.6)**	**(3.6)**

REIMBURSEMENT RIGHTS

As described in Note 7.4, a non-current asset (within other financial assets) is recognised as reimbursement rights linked to the defined-benefit obligation for the population benefitting from the interest scheme and medical plan liabilities and tariff benefits for the retired Elia population. Each change in these liabilities equally affects the corresponding reimbursement rights under non-current other financial assets.

The decrease in reimbursement rights linked to pensions is a result of the change in financial assumptions on the one hand (discount rate) and changes from experience adjustments on the other hand.

Movement in the present value of the reimbursement rights (in million EUR)	Pensions 2017	Pensions 2016	Other 2017	Other 2016
At the beginning of the period	(31.8)	(36.4)	(26.3)	(23.5)
Current service cost			0.0	
Interest cost/income	(0.4)	(0.6)	(0.5)	(0.5)
Actuarial gains(/losses) on defined obligation arising from:				
1) Changes in demographic assumptions	0.0	0.0	0.0	0.0
2) Changes in financial assumptions	(0.1)	(1.6)	0.1	(1.7)
3) Changes from experience adjustments	0.2	3.0	(0.5)	(2.4)
Taxes on contributions paid during the year	0.5	0.0	0.0	0.0
Payments from the plan	3.7	3.8	1.6	1.7
At the end of the period	**(28.0)**	**(31.8)**	**(25.6)**	**(26.3)**

7.13. Provisions

(In million EUR)	Environment	Elia Re	Other	Total
Balance at 1 January 2016	13.8	4.7	2.0	20.5
Increase in provisions	3.3	3.0	0.8	7.1
Reversals of provisions	(0.4)	(0.3)	(0.0)	(0.7)
Utilisation of provisions	(0.5)	(0.3)	(0.2)	(1.1)
Balance at 31 December 2016	**16.2**	**7.1**	**2.4**	**25.7**
Long-term portion	13.8	7.1	2.5	23.3
Short-term portion	2.4	0.0	0.0	2.4
Balance at 1 January 2017	16.2	7.1	2.5	25.8
Increase in provisions	3.0	1.6	0.3	4.3
Reversals of provisions	(4.0)	0.0	(0.1)	(4.1)
Utilisation of provisions	(0.6)	(0.6)	(0.1)	(0.7)
Balance at 31 December 2017	**14.6**	**8.1**	**2.6**	**25.3**
Long-term portion	10.1	8.1	2.6	20.8
Short-term portion	4.5	0.0	0.0	4.5

Elia has conducted soil surveys on over 200 sites in Flanders in accordance with contractual agreements and Flemish legislation. Significant soil contamination was found on some sites, with this being mainly attributable to historical pollution arising from earlier or nearby industrial activities (gas plants, incinerators, chemicals, etc.).

Elia carried out analyses and studies in a number of substations and on a number of plots on which pylons for overhead power lines were built in the Brussels-Capital Region and the Walloon Region, with a view to detecting any possible contamination. On the basis of the analyses and studies, Elia has made provisions for possible future soil remediation costs in line with the respective legislation.

Environmental provisions are recognised and measured based on the appraisal of an external expert bearing in mind BATNEEC (Best Available Techniques Not Entailing Excessive Costs) as well as on the circumstances known at the end of the reporting period. The timing of the settlement is unclear but for the premises where utilisations occur, the underlying provision is classified as a short-term provision.

The utilisation of provisions for the environment is predominantly related to ongoing soil research and remediation on certain sites in Wallonia and Flanders worth €0.6 million in total. On the one hand, a reversal of €4.0 million was recorded for certain sites in Wallonia and Brussels; and on the other hand, an increase of €3.0 million, mainly for sites in Wallonia and Flanders, following on from new estimates and regulatory changes in the Walloon Region.

An amount of €8.1 million is included at the year-end for Elia Re, a captive reinsurance company, of which €3.8 million is linked to claims for overhead facilities, €2.9 million to electrical facilities and €1.4 million to liability cases (as opposed to €2.8 million for overhead facilities, €3.0 million for electrical facilities and €1.3 million for liability cases in 2016).

The section 'Other' consists of provisions for litigation to cover likely payment as a result of cases in which legal proceedings have been instituted against the Group by a third party or in which the Group is involved.

These estimates are based on the value of claims filed or on the estimated level of risk exposure. The expected timing of the related cash outflow depends on the progress and duration of the associated procedures.

The changes in provisions are presented in Note 6.3.

7.14. Other non-current liabilities

(In million EUR)	2017	2016
Investment grants	3.8	5.1
Total	**3.8**	**5.1**

The investment grants consist of deferred income for capital subsidies received from the European Union and the Brussels-Capital Region. No additional grants were recognised under other non-current liabilities in 2017.

7.15. Trade and other payables

(in million EUR)	2017	2016
Trade debts	220.8	288.0
VAT and other taxes	8.9	8.4
Remuneration and social security	28.1	26.5
Dividends	1.2	1.2
Levies	108.0	54.0
Other	11.1	12.5
Accrued liabilities	0.4	0.3
Total	**378.5**	**390.8**

Trade debts as at the year-end of 2016 were exceptionally high. The level of trade debts outstanding as at the year-end of 2017 has returned to normal.

Levies mainly consist of federal levies (€43.4 million, compared with €40.0 million at the end of 2016) and levies for the Walloon government (€49.1 million payable, compared with a €91.7-million receivable at the end of 2016). The payable to the Walloon government is mainly due to the sale of 2.8 million green certificates in September 2017, as approved by the Decree of 29 June 2017. This resulted in a cash inflow of €176.2 million. Also see Note 7.7.

'Other' mainly consists of cash guarantees received from customers and advance payments for projects.

7.16. Accruals and deferred income

(in million EUR)	2017	2016
Accruals and deferred income	8.5	26.2
Settlement mechanism	526.1	433.6
Total	**534.6**	**459.8**

The settlement mechanism is described in Note 9.1. The change in the settlement mechanism in Belgium is described in Note 4.2.

The settlement mechanism at 31 December 2017 is set out in the table below:

(in million EUR)	Belgium
To be refunded to the tariffs in the current regulatory period	157.5
To be refunded to the tariffs in the next regulatory period	368.6
Settlement mechanism	**526.1**

The Group operates in a regulated climate in which tariffs are meant to make it possible to realise total revenue consisting of:

1. a reasonable return on invested capital;
2. all reasonable costs which are incurred by the Group.

Since the tariffs are based on estimates, there is always a difference between the tariffs that are actually charged and the tariffs that should have been charged to cover all reasonable costs of the system operator and to provide shareholders with a reasonable profit margin on their investment.

If the applied tariffs result in a surplus or a deficit at the end of the year, this means that the tariffs charged to consumers/the general public could have been respectively lower or higher (and vice versa). A surplus or deficit arising from the settlement mechanism is therefore not reported in profit or loss, or as an item under equity.

On a cumulative basis, it could be argued that the public has made an advance payment (= surplus) for its future use of the grid. As such, the surplus (deficit) is not a commission for a future loss (recovery) of income but instead a deferred/accrued revenue for (with regard to) consumers. On the basis of the regulatory framework, the Group believes that the surplus (deficit) does not represent an item of revenue (cost). Consequently, these amounts are netted and reported under 'Accruals and deferred income'. These surpluses or deficits are verified and approved by the regulator in the next accounting year.

See Note 9.1 for more details.

7.17. Financial instruments – fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair-value hierarchy.

(in million EUR)	Carrying amount					Fair value			
	Designated at fair value	**Fair value - hedging instruments**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2016									
Other financial assets	7.3				7.3	7.1		0.2	7.3
Trade and other receivables			442.6		442.6				0.0
Cash and cash equivalents			176.6		176.6				0.0
Interest-rate swaps used for hedging		(9.4)			(9.4)		(9.4)		(9.4)
Unsecured financial bank loans and other loans				(643.3)	(643.3)		(643.3)		(643.3)
Unsecured bond issues				(2,090.6)	(2,090.6)		(2,449.8)		(2,449.8)
Trade and other payables				(390.8)	(390.8)				0.0
Total	**7.3**	**(9.4)**	**619.2**	**(3,124.6)**	**(2,507.6)**	**7.1**	**(3,102.5)**	**0.2**	**(3,095.2)**
31 December 2017									
Other financial assets	7.3				7.3	7.1		0.2	7.3
Trade and other receivables			428.9	0.0	428.9				0.0
Cash and cash equivalents			195.2	0.0	195.2				0.0
Foreign-currency rate swaps used for hedging		0.0			0.0		0.0		0.0
Unsecured financial bank loans and other loans				(545.3)	(545.3)		(545.3)		(545.3)
Unsecured bond issues				(2,338.9)	(2,338.9)		(2,621.2)		(2,621.2)
Trade and other payables				(378.5)	(378.5)				0.0
Total	**7.3**	**0.0**	**624.1**	**(3,262.7)**	**(2,631.3)**	**7.1**	**(3,166.5)**	**0.2**	**(3,159.3)**

The above tables do not include fair-value information for financial assets and liabilities not measured at fair value, such as cash and cash equivalents, a considerable proportion of trade and other receivables, and trade and other payables as their carrying amount is a reasonable approximation of fair value.

Fair value is the amount for which an asset could be exchanged or a liability settled in an arm's-length transaction. IFRS 7 requires, for financial instruments that are measured in the balance sheet at fair value, the disclosure of fair-value measurements by level in the following fair value measurement hierarchy:

Level 1: The fair value of a financial instrument that is traded in an active market is measured based on quoted (unadjusted) prices for identical assets or liabilities. A market is considered active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to assess the fair value of an instrument are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices), the instrument is included in level 2.

Level 3: If one or more of the significant inputs used in applying the valuation technique is not based on observable market data, the financial instrument is included in level 3.

FAIR VALUE

As the loan has a variable interest rate, the carrying amount of the loan is equal to the fair value.

The fair value of the financial assets and liabilities, other than those presented in the above table, approximates to their carrying amounts largely due to the short-term maturities of these instruments.

FAIR-VALUE HIERARCHY

The fair value of 'sicavs' falls into level 1, i.e. valuation is based on the (unadjusted) listed market price on an active market for identical instruments.

The fair value of interest-rate swaps, loans and bond issues falls into level 2, which entails valuation being based on input from other prices than the stated prices, where these other prices can be observed for assets or liabilities. This category includes instruments valued on the basis of listed market prices on active markets for such instruments; listed prices for identical or similar instruments on markets that are deemed less than active; or other valuation techniques arising directly or indirectly from observable market data.

ESTIMATE OF FAIR VALUE

Derivatives

Brokers' statements are used for valuations of the interest-rate and foreign-currency rate swaps. The statements are controlled using valuation models or techniques based on discounted cash flows. The models incorporate various inputs including the credit quality of counterparties and interest-rate curves at the end of the reporting period.

As the interest-rate swaps matured on 31 December 2017, €32k relates to two minor foreign-currency rate swaps.

As at 31 December 2017, the counterparty risk is considered close to zero, as is the Group's own non-performance risk.

Interest-bearing loans

The fair value is calculated on the basis of the discounted future redemptions and interest payments.

7.18. Changes in interest-bearing loans and borrowings

The tables below disclose the changes in the Group's liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(in million EUR)	Current Interest-bearing loans and borrowings	Non-current Interest-bearing loans and borrowings	Total
Balance 1 January 2016	604.4	2,605.4	3,209.8
Cash flow: interest paid	(115.6)	0.0	(115.6)
Cash flow: repayment of borrowings	(540.0)	0.0	(540.0)
Cash flow: proceeds from withdrawal borrowings	80.0	0.0	80.0
Interest accruals	98.6	0.0	98.6
Other	20.1	(19.0)	1.1
Balance 31 December 2016	**147.5**	**2,586.4**	**2,733.9**

Balance 1 January 2017	147.5	2,586.4	2,733.9
Cash flow: interest paid	(88.4)	0.0	(88.4)
Cash flow: repayment of borrowings	(100.0)	0.0	(100.0)
Cash flow: proceeds from withdrawal borrowings	0.0	247.4	247.4
Interest accruals	90.4	0.0	90.4
Other	0.0	0.9	0.9
Balance 31 December 2017	**49.5**	**2,834.7**	**2,884.2**

The net increase in interest-bearing loans and borrowings is predominantly explained by the issuance of a new €250-million eurobond in March 2017, as well as the repayment of the loan to the European Investment Bank (€20.0 million) and the dematerialised treasury notes (€78.0 million) as those loans matured in the financial year 2017.

'Other' in the financial year 2016 mainly relates to reclassifications of long-term debt to short-term debt in accordance with when instruments become due.

8. Miscellaneous

8.1. Effect of new acquisitions/sales of shares

CHANGES IN THE ELIA TRANSMISSION (BELGIUM) SEGMENT

Funding of JV Nemo Link

On 27 February 2015, Elia System Operator and National Grid signed a joint venture agreement to build the Nemo Link Interconnector; each shareholder holds a 50% stake in Nemo Link Ltd, a UK company.

Both shareholders have provided funding to Nemo Link Ltd since 2016 via equity contributions and loans (with an annual interest rate of 4% and a maturity of 25 years from the start date of the commercial operations of the Interconnector), divided on a 50/50 basis.

In 2017, Elia provided €141.9 million, bringing the Company's total funding to €231.2 million, of which 40% came via equity contributions and 60% via loans. This joint venture is included in the Belgian segment using the equity method.

Acquisition of stake in Enervalis NV

Elia acquired a 12.5% stake in Enervalis in the financial year 2017. Enervalis develops innovative software-as-a-service solutions that will support market players in optimising their energy bill while helping to meet growing flexibility needs with a view to managing the balance between supply and demand on the system. The software solutions enable Enervalis's customers (e.g. energy suppliers and equipment manufacturers) to automatically optimise the supply, storage and demand flexibility of devices such as heat pumps, electric vehicles and solar PV systems to better match prosumer energy needs.

8.2. Financial risk and derivative management

PRINCIPLES OF FINANCIAL RISK MANAGEMENT

The Group aims to identify each risk and set out strategies to control the economic impact on the Group's results.
The Risk Management Department defines the risk-management strategy, monitors the risk analysis and reports to management and the Audit Committee. The financial risk policy is implemented by determining appropriate policies and setting up effective control and reporting procedures. Selected derivative hedging instruments are used depending on the assessment of the risk involved. Derivatives are used exclusively as hedging instruments. The regulatory framework in which the Group operates significantly restricts their effects on profit or loss (see the section 'Regulatory framework and tariffs'). The major impact of increased interest rates, credit risk, etc. can be settled in the tariffs, in accordance with the applicable legislation.

CREDIT RISK

Credit risk encompasses all forms of counterparty exposure, i.e. where counterparties may default on their obligations to the Company in relation to lending, hedging, settlement and other financial activities. The Company is exposed to credit risk from its operating activities and treasury activities. As regards its operating activities, the Group has a credit policy in place, which takes into account the risk profiles of customers. The exposure to credit risk is monitored on an ongoing basis, resulting in a request to issue bank guarantees from the counterparty for some major contracts.

At the end of the reporting period there were no significant concentrations of credit risks. The maximum credit risk is the carrying amount for each financial asset, including derivative financial instruments.

(in million EUR)	2017	2016
Loans and receivables – long term	147.8	63.0
Loans and receivables – short term	281.1	379.6
Cash and cash equivalents	195.2	176.6
Immediately claimable deposits	7.1	7.1
Interest-rate swaps used for hedging (matured as at 31 December 2017):		
Liabilities	-	(9.4)
Total	**631.2**	**616.9**

The movement in the allowance for impairment in respect of loans and receivables during the year was as follows:

(in million EUR)	Bad debtors	Impairment losses	Remaining balance
Opening balance	1.6	(1.3)	0.3
Changes during the year	(0.3)	0.2	(0.1)
Balance at 31 December 2016	**1.3**	**(1.1)**	**0.2**
Opening balance	1.3	(1.1)	0.2
Changes during the year	0.4	(0.2)	0.2
Balance at 31 December 2017	**1.7**	**(1.3)**	**0.4**

The Group believes that the unimpaired amounts overdue by more than 30 days are still collectible, based on historical payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings, when available. The credit quality of trade and other receivables is assessed based on a credit policy.

CURRENCY RISK

The Group is not exposed to any significant currency risk, either from transactions or from exchanging foreign currencies into euro, since it has no foreign investments or activities and less than 1% of its costs are expressed in currencies other than the euro.

LIQUIDITY RISK

Liquidity risk is the risk that the Group may be unable to meet its financial obligations. The Group limits this risk by constantly monitoring cash flows and ensuring that there are always sufficient credit-line facilities available.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, confirmed and unconfirmed credit facilities, commercial paper programme, etc. For medium- to long-term funding, the Group uses bonds. The maturity profile of the debt portfolio is spread over several years. The Group Treasury frequently assesses its funding resources taking into account its own credit rating and general market conditions.

Referring to the bond issues in 2013, 2014, 2015 and 2017, the Group is convinced that it has sufficient access to sources of funding.

(in million EUR)	Closing balance	Expected cash outflows	6 months or less	6-12 months	1-2 years	2-5 years	> 5 years
Non-derivative financial liabilities	**3,124.6**	**(3,722.0)**	**(562.6)**	**(2.1)**	**(73.3)**	**(670.4)**	**(2,413.7)**
Unsecured bond issues	2,090.6	(2,703.8)	(68.5)	0.0	(68.5)	(653.0)	(1,913.8)
Unsecured financial bank loans and interest accruals	643.3	(627.5)	(103.3)	(2.1)	(4.8)	(17.4)	(499.9)
Trade and other payables	390.8	(390.8)	(390.8)				
Derivative financial liabilities	**9.4**	**(9.5)**	**(4.7)**	**(4.8)**	**0.0**	**0.0**	**0.0**
Interest-rate swaps used for hedging	9.4	(9.5)	(4.7)	(4.8)			
Total at 31 December 2016	3,134.0	(3,731.5)	(567.3)	(6.9)	(73.3)	(670.4)	(2,413.7)
Non-derivative financial liabilities	**3.262,7**	**(3.814,7)**	**(452,6)**	**(2,2)**	**(576,4)**	**(644,8)**	**(2.138,7)**
Unsecured bond issues	2,338.9	(2,919.6)	(71.9)	0.0	(571.9)	(137.1)	(2,138.7)
Unsecured financial bank loans and interest accruals	545.3	(566.1)	(51.7)	(2.2)	(4.4)	(507.8)	0.0
Trade and other payables	378.5	(378.5)	(378.5)				
Derivative financial liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Foreign-currency rate swaps used for hedging	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total at 31 December 2017	**3,262.7**	**(3,864.2)**	**(502.1)**	**(2.2)**	**(576.4)**	**(644.8)**	**(2,138.7)**

In 2017, Elia Transmission issued a 10-year bond with a nominal value of €250 million.

Details of the used and unused back-up credit facilities are set out below:

(in million EUR)	Maturity	Available amount	Average basic interest	Amount used	Amount not used
Confirmed credit line	08/07/2021	110.0	Euribor + 0.30%	0.0	110.0
Confirmed credit line	08/07/2021	110.0	Euribor + 0.30%	0.0	110.0
Confirmed credit line	08/07/2021	110.0	Euribor + 0.30%	0.0	110.0
Confirmed credit line	08/07/2021	110.0	Euribor + 0.30%	0.0	110.0
Confirmed credit line	08/07/2021	110.0	Euribor + 0.30%	0.0	110.0
Confirmed credit line	08/07/2021	100.0	Euribor + 0.30%	0.0	100.0
EIB credit facility	14/11/2018	100.0	Euribor + 0.19%		100.0
Belgian dematerialised treasury notes	unlimited	350.0	Euribor + margin when concluding deal	0.0	350.0
Straight loan - EGI	unlimited	2.5	Euribor + 0.75%	0.0	2.5
Total		**1,102.5**		**0.0**	**1,102.5**

As at 31 December 2017, the German segment had unused facilities amounting to in total €900 million (consisting of a €150-million overdraft facility and €750 million in revolving facilities).

INTEREST-RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to its long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed- and variable-rate loans and borrowings. To manage this, the Group could engage in interest-rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed- and variable-rate interest amounts calculated based on an agreed notional principal amount. These swaps are allocated to hedge underlying debt obligations. As at 31 December 2017, the Group had no interest-rate swaps outstanding.

The table (see Note 7.11) shows the average interest rate at the balance sheet date.

SENSITIVITY ANALYSIS

Changes in interest rates will not affect the consolidated result in the short or long term as the Group operates within a regulatory framework where the consequences of fluctuations in financial expenses are mainly recovered in tariffs, except for the items which are directly recognised through OCI.

HEDGING

All financial derivatives the Group enters into relate to an underlying transaction or forecast exposure, depending on the expected impact on the income statement, and if the stringent IAS 39 criteria are met, the Group decides on a case-by-case basis whether hedge accounting will be applied. The following paragraphs describe the transactions whereby hedge accounting is applied. As at 31 December 2017, the Group had no transactions which did not qualify for hedge accounting.

In accordance with the hedge-accounting rules, all derivative financial instruments are designated as cash-flow hedges and valued at fair value. Consequently, the portion of the gain or loss on the derivative financial instrument that can be considered an effective hedge is reflected directly in equity (hedging reserves net of tax).

As at 31 December 2017, the Group only had two minor foreign-currency swaps outstanding, totalling a notional amount of €0.3 million. The net fair value of these swaps was below €0.1 million.

As at that date, no significant financial expenses resulting from ineffective cash-flow hedges were included in profit or loss.

CAPITAL RISK MANAGEMENT

The purpose of the Group's capital-structure management is to maintain the debt and equity ratios related to the regulated activities in line with the requirement of the regulatory framework (one-third equity and two-thirds debt capital). This approach allows the Group to manage the security of the liquidity at all times via flexible access to capital markets, so as to be able to finance strategic projects and to offer an attractive remuneration to shareholders.

The Company's dividend policy involves optimising dividend payments while still bearing in mind that the company has the self-financing capacity it needs to carry out its legal mission.

The Company offers the employees the opportunity to subscribe to capital increases that are exclusively reserved for them.

8.3. Commitment and contingencies

OPERATING LEASE COMMITMENTS – GROUP AS A LESSEE

The Group entered into agreements to obtain passage rights for both underground and above-ground cables. These rights are often obtained in the form of usufruct rights or concessions. The terms and conditions of these contracts vary depending on the counterparty as well as the when the contract was entered into.

The Group also entered into commercial leases on motor vehicles, IT equipment and office buildings. The leases related to cars and IT equipment have an average term of three years. The contracts regarding the buildings have a normal term of nine years, with the option of renewing the lease after that. Renewals are decided on by the specific entity that holds the lease. Normal conditions for renewal of lease contracts are applicable.

Future minimum rentals payable under non-cancellable operating leases are as follows:

(in million EUR)	< 1 year	1–5 years	> 5 years
Use of land *	0.5	1.9	7.7
Buildings	2.4	2.4	0.0
Cars, IT equipment and others	6.2	10.8	0.0
Balance at 31 December 2016	**9.1**	**15.1**	**7.7**
Use of land	0.5	1.9	7.2
Buildings	2.4	0.6	0.0
Cars, IT equipment and others	7.3	10.9	0.0
Balance at 31 December 2017	**10.2**	**13.4**	**7.2**

* Use of land commitments were not disclosed in the 2016 annual accounts. These commitments were not considered operating lease commitments until 2016. The Group has revised its position as part of the ongoing analysis of lease accounting. The disclosed amounts do not include low-value leases (i.e. with annual payments of less than €250) and which are considered not to have a material effect on this disclosure.

The following expenses related to these lease contracts were recognised in the profit or loss:

(in million EUR)	2017	2016
Use of land	1.7	1.7
Buildings	2.5	2.4
Cars, IT equipment and others	6.4	6.2
Total	**10.6**	**10.3**

OPERATING LEASE COMMITMENTS – GROUP AS A LESSOR

The Group has entered into commercial property leases on certain items of property, plant and equipment, mainly consisting of optimising the use of sites and high-voltage pylons.
Future minimum rental receivables are as follows:

(in million EUR)	< 1 year	1–5 years	> 5 years
Telecom	13.1	9.8	13.1
Land and buildings	0.6	0.5	0.0
Balance at 31 December 2016	**13.6**	**10.3**	**13.1**
Telecom	14.4	6.5	0.0
Land and buildings	0.6	0.2	0.0
Balance at 31 December 2017	**15.0**	**6.7**	**0.0**

The following revenue related to these lease contracts was recognised in the income statement:

(in million EUR)	2017	2016
Telecom	14.3	13.0
Land and buildings	0.6	0.6
Total	**14.9**	**13.6**

CONTINGENT RENTS, PURCHASE OPTIONS AND RESTRICTIONS

The Group has no contracts which include contingent rental payments, and no purchase options were agreed in the significant lease contracts. Furthermore, these significant lease contracts do not include any escalation clauses or restrictions that are significant to the use of the respective asset.

CAPITAL-EXPENDITURE COMMITMENT
As at 31 December 2017, the Group had a commitment of €1,004.88 million relating to the purchase contracts for the installation of property, plant and equipment for further grid extensions. These capital-expenditure commitments include the commitments of the German segment, amounting to €435.8 million (with a 60% stake for Elia).

OTHER CONTINGENCIES AND COMMITMENTS
As at 31 December 2017, the Group had a commitment of €130.44 million relating to purchase contracts for general expenses, maintenance and repair costs. This amount includes the commitments of the German segment, totalling €21.9 million (with a 60% stake for Elia).

Elia System Operator also provided a parent-company guarantee to her joint venture Nemo Link Ltd amounting to €113.7 million in relation to the EPC contracts so that Nemo Link Ltd could build the relevant interconnector.

Having received approval from the Walloon government and from the CREG, on 22 June 2015 Elia entered into an agreement with Solar Chest for the sale of Walloon green certificates with a total value of €275 million, of which €221 million was settled in 2015 and a total of €48 million was settled in 2016. Solar Chest's mission is to buy, hold and sell Walloon green certificates for a period of respectively five, six and seven years. At the end of each period (30 June 2020, 30 June 2021 and 30 June 2022 respectively), any unsold certificates will be bought back by Elia. CREG confirmed and guaranteed to Elia that at the end of each reservation period, the cost and any expense for repurchase of non-marketable certificates may be recovered fully through the tariffs for levies, and as a consequence the impact of the potential repurchase by Elia will have no impact on the Company's financial performance.

In September 2017, Elia sold 2.8 million green certificates to the Walloon Region (i.e. the Walloon Agency for Air and Climate, or AwAC) leading to a net cash inflow of €176.2 million. This was a result of the Decree of 29 June 2017 amending the Decree of 12 April 2011 relating to the organisation of the regional electricity market and the Decree of 5 March 2008 relating to the creation of the Walloon Agency for Air and Climate. The green certificates transferred by Elia can be gradually resold by AwAC as from 2022, taking into account the market conditions that exist for green certificates at that time. The legislation also envisages the green certificates being held by the AwAC for a period of up to nine years, after which Elia is required to buy back any unsold certificates. These repurchase commitments will have no impact on Elia's financial performance, as the cost and expense for the repurchase will be fully recovered through the tariffs for levies.

8.4. Related parties

TRANSACTIONS WITH KEY MANAGEMENT PERONNEL
Key management include members of the Board of Directors and Elia's Management Committee, made up of the Chief Executive Officer, the Chief Financial Officer, the Chief Customers, Market & System Officer, the Chief Public Acceptance Officer, the Chief Assets Officer, the Chief Infrastructure Officer, the Chief Officer External Relations and the Chief Human Resources & Internal Communication Officer.

The members of the Board of Directors are not employees of the Group. The remuneration for their mandate is detailed in the Corporate Governance Statement forming part of this annual report.

The members of Elia's Management Committee are hired as employees and the components of their remuneration are set out below. Members of the Management Committee do not receive stock options, special loans or other advances from the Group.

(In million EUR)	2017	2016
Short-term employee benefits	**2.6**	**2.4**
Basic remuneration	1.8	1.6
Variable remuneration	0.8	0.8
Post-employment benefits	**0.4**	**0.4**
Other variable remuneration	**0.7**	**0.6**
Total gross remuneration	**3.7**	**3.4**
Number of persons (in units)	8	7
Average gross remuneration per person	0.5	0.5
Number of shares (in units)	**20,005**	**22,039**

Some members of the Management Committee also hold shares in Elia System Operator – for an overview, please see the Corporate Governance Statement forming part of this annual report.

In addition, Elia's Management Committee also assessed whether transactions occurred with entities in which they or members of the Board of Directors exercise a significant influence (e.g. positions as CEO, CFO, vice-presidents of the Management Committee, etc.).

There were some significant transactions in 2017 with various distribution system operators. The total value of realised sales came to €54.1 million, while the total value of expenses amounted to €3.3 million. As at 31 December 2017, there was an outstanding trade-receivable position of €4.6 million and an outstanding trade-debt position of €0.2 million.

TRANSACTIONS WITH JOINT VENTURES AND ASSOCIATED COMPANIES
Transactions between the Company and subsidiaries that are related parties were eliminated during consolidation and therefore are not recognised in this note.

In the 2017 and 2016 financial years, there were no transactions with E-Offshore, Atlantic Grid Investment or Enervalis.

Transactions with joint ventures and associated companies were not eliminated, and therefore details of transactions with other related parties are shown below:

(In million EUR)	2017	2016
Transactions with joint ventures and associated companies	**23.2**	**27.8**
Sales of goods	33.3	34.6
Purchases of goods	(14.7)	(8.4)
Interest and similar revenue	4.6	1.6
Outstanding balances with joint ventures and associated companies	**134.9**	**28.8**
Long-term debtors	147.7	63.0
Trade debtors	4.2	2.8
Trade debts	(11.7)	(29.7)
Accruals and deferred income	(5.3)	(0.1)
Deferred charges and accrued revenues	0.0	1.6

Sales of goods remained relatively stable from year to year. The transactions mainly involved work performed by EGI GmbH for 50Hertz, as well as revenues generated with respect to IGCC (i.e. International Grid Control Coordination) exports by 50Hertz.

The increase in purchases of goods can be explained by increased volumes of IGCC imports by 50Hertz.

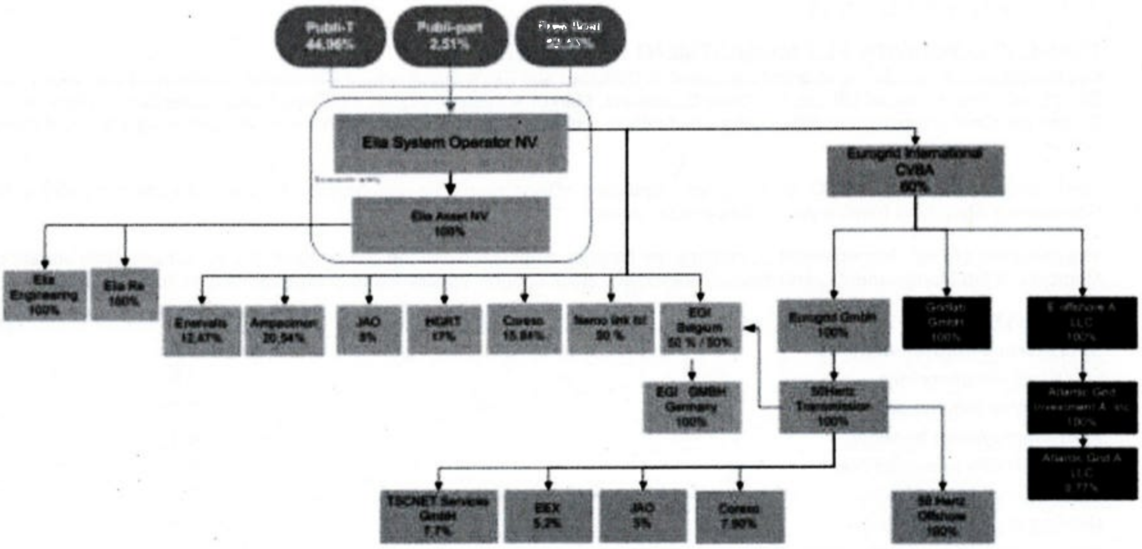
The decrease in trade debts is due to a fall in outstanding trade debts owed by EGI GmbH to 50Hertz.

Please also see Note 8.3 in which we set out the guarantees Elia System Operator issued for its joint venture Nemo Link Ltd.

The significant increase in long-term debtors is a result of the funding provided to Nemo Link in 2017 – see Note 7.4 for more details.

8.5. Subsidiaries, joint ventures and associates

GROUP STRUCTURE OVERVIEW



SUBSIDIARIES

Elia System Operator NV/SA has direct and indirect control of the subsidiaries listed below.

All the entities keep their accounts in euros (except E-Offshore A LLC, Atlantic Grid Investment A Inc. and Atlantic Grid A LLC, whose accounts are held in US dollars) and have the same reporting date as Elia System Operator NV/SA (except Eurogrid International CVBA/SCRL).

Name	Country of establishment	Headquarters	Stake (%)	
			2017	2016
Elia Asset NV/SA	Belgium	Bd de l'Empereur 20, 1000 Brussels	99.99	99.99
Elia Engineering NV/SA	Belgium	Bd de l'Empereur 20, 1000 Brussels	100.00	100.00
Elia Re NV/SA	Luxembourg	Rue de Merl 65, 2146 Luxembourg	100.00	100.00
Elia Grid International NV/SA	Belgium	Bd de l'Empereur 20, 1000 Brussels	80.00	80.00
Elia Grid International GmbH	Germany	Heidestraße 2, 10557 Berlin	80.00	80.00
Joint ventures				
Eurogrid International CVBA/SCRL	Belgium	Bd de l'Empereur 20, 1000 Brussels	60.00	60.00

Eurogrid GmbH	Germany	Heidestraße 2, 10557 Berlin	60.00	60.00
50Hertz Transmission GmbH	Germany	Heidestraße 2, 10557 Berlin	60.00	60.00
50Hertz Offshore GmbH	Germany	Heidestraße 2, 10557 Berlin	60.00	60.00
Gridlab GmbH	Germany	Mittelstraße 7, 12529 Schönefeld	60.00	60.00
E-Offshore A LLC	USA	874, Walker Road, Suite C, 19904 Dover, Delaware	60.00	60.00
Atlantic Grid Investment A Inc.	USA	1209 Orange Street, 19801 Wilmington, Delaware	60.00	60.00
Nemo Link Ltd	United	Strand 1-3, London, WC2N 5EH - UK	50.00	50.00
Associated companies accounted for using the equity method				
H.G.R.T S.A.S.	France	1 Terrasse Bellini, 92919 La Défense Cedex	17.00	17.00
Coreso NV/SA	Belgium	Avenue de Cortenbergh 71, 1000 Brussels	20.58	21.66
Ampacimon SA	Belgium	Rue des Chasseurs Ardennais 3, 4031 Angleur	20.54	19.64
Enervalis NV	Belgium	Centrum-Zuid 1111, 3530 Houthalen-Helchteren	12,47	0.00
Other participations				
JAO SA	Luxembourg	2, Rue de Bitbourg, 1273 Luxembourg	8.00	8.00
Atlantic Grid A LLC	USA	4445, Willard Av, Suite 1050, 20815 Chevy Chase, Maryland	5.86	6.00
European Energy Exchange (EEX)	Germany	Augustusplatz 9, 04109 Leipzig	4.32	5.20
TSCNET Services GmbH	Germany	Dingolfinger Strasse 3, 81673 Munich	4.62	4.62

8.6. Subsequent events

There are no significant events to report after 31 December 2017.

8.7. Miscellaneous

Impact of the result of the United Kingdom leaving the European Union

The Group has started an analysis of the potential impact of Brexit on the consolidated financial statements.

At this stage, the Group does not expect any impact on the construction of the Nemo Link interconnector. Future operations resulting from the Nemo Link interconnection could be affected by the United Kingdom exiting the European Union, but due to ongoing measures being taken by both the UK government and the European Union, the impact cannot yet be quantified.

Other than a potential effect on the future operations of the Nemo Link interconnection which cannot be quantified as yet, the Group expects the effect of Brexit on the consolidated financial statements to be very limited.

8.8. Services provided by the auditors

The General Meeting of Shareholders appointed as joint auditors KPMG Bedrijfsrevisoren Burg. CVBA (represented by Alexis Palm) and Ernst & Young Bedrijfsrevisoren BCVBA (represented by Patrick Rottiers) for the audit of the consolidated financial statements of Elia System Operator NV/SA and the audit of the statutory financial statements of Elia System Operator NV/SA, Elia Asset NV/SA and Elia Engineering NV/SA.

The following table sets out the fees of the joint auditors and its associated companies related to the delivered services with respect to the accounting year 2017:

In EUR	Belgium	Other offices in the network	Total
Statutory audit	179,958	319,450	499,408
Audit related	110,355	171,296	281,651
Income tax	55,706	4,302	60,008
Indirect tax	20,277	0.00	20,277
Other advisory	30,000	14,696	44,696
Total	**396,296**	**509,744**	**906,040**

9. REGULATORY FRAMEWORK AND TARIFFS

9.1 Regulatory framework in Belgium

9.1.1 Federal legislation

The Electricity Act, which forms the general basis, lays down the core principles of the regulatory framework governing Elia's activities as a transmission system operator in Belgium.

This Act was heavily amended on 8 January 2012 by the transposition at federal level of the 3rd package of European directives. These changes ensure that the Electricity Act:

- sets out the unbundling of transmission operations from generation, distribution and supply activities;
- sets out in greater detail the rules for operating and accessing the transmission system;
- redefines the transmission system operator's legal mission, mainly by expanding it to the offshore areas over which Belgium has jurisdiction; and
- strengthens the role of the regulatory authority, particularly as regards determining transmission tariffs.

A number of royal decrees provide more details of the regulatory framework applying to the transmission system operator, particularly the Royal Decree on the Federal Grid Code. Similarly, the decisions passed by the Commission for Electricity and Gas Regulation (CREG) supplement these provisions to form the regulatory framework within which Elia operates at the federal level.

9.1.2 Regional legislation

Belgium's three regions are primarily responsible for the local transmission of electricity through grids with a voltage of 70 kV or less on their respective territory. The regional regulators are in charge of the non-tariff aspects of local transmission-system regulation, while setting and monitoring tariffs falls under federal jurisdiction.

The Flemish Region, the Brussels-Capital Region and the Walloon Region have also transposed into their legislative framework the provisions of the 3rd European package applying to them. The regional decrees have been complemented by various other rules and regulations on matters such as public service obligations, renewable energy and authorisation procedures for suppliers.

9.1.3 Regulatory agencies

As required by EU law, the Belgian electricity market is monitored and controlled by independent regulators.

FEDERAL REGULATOR

CREG is the federal regulator, and its powers with regard to Elia include:

- approving the standardised terms in the three main contracts used by the company at the federal level: the connection contract, the access contract and the ARP contract;
- approving the capacity allocation system at the borders between Belgium and neighbouring countries;
- approving the appointment of the independent members of the Board of Directors;
- determining the tariff methodology to be observed by the grid operator when calculating the various tariffs applying to grid users;
- certifying that the grid operator actually owns the infrastructure it operates and that it meets the regulatory requirements for independence from generators and suppliers.

REGIONAL REGULATORS

Operation of electricity grids with voltages of 70 kV and less falls under the jurisdiction of the respective regional regulators. Each of them may require any operator (including Elia if it operates such grids) to abide by any specific provision of the regional electricity rules on pain of administrative fines or other sanctions. However, the regional regulators do not have the power to set tariffs for electricity transmission systems, as tariff setting falls within the exclusive remit of CREG for these grids.

9.1.4 Tariff setting

TARIFF REGULATIONS

On 18 December 2014, CREG adopted a decree setting out calculation methods to establish tariffs applying to users of electricity grids performing a transmission function. Elia used this methodology as a basis for its tariff proposal for 2016-2019 submitted on 30 June 2015. This tariff proposal, adjusted following the discussions between Elia and CREG in the course of the second half of 2015, was approved by the regulator on 3 December 2015.

TARIFF REGULATIONS APPLYING IN BELGIUM

As the operator of grids performing a transmission function (covering the transmission grid and the local and regional transmission grids in Belgium), Elia makes most of its income from the regulated tariffs charged for use of these grids (tariff income), which are approved in advance by CREG. As of 1 January 2008, the prevailing tariff regulation mechanisms have provided for approved tariffs being set for four-year periods, barring specific circumstances. 2017 was therefore the second year of the third four-year regulatory period.

The tariff mechanism is based on amounts recognised in accordance with Belgian accounting regulations (BE GAAP). The tariffs are based on budgeted costs minus a number of sources of non-tariff income. These costs are then divided based on an estimate of the volumes of electricity taken off the grid and, in the case of some costs, based on estimated volumes of electricity injected into the grid, in accordance with the terms of the tariff methodology drawn up by CREG.

The costs taken into account include the forecast value of the authorised remuneration of the invested capital, an estimate of the amounts allocated to Elia in the form of performance incentives and the predicted values of various cost categories. These costs are subdivided into three groups: controllable costs, for which Elia is offered a financial incentive to improve its efficiency levels; non-controllable costs, over which Elia has no influence and for which the deviations from the budget are completely allocated to the calculation of future tariffs; and influenceable costs, to which a hybrid rule applies (see the information about controllable and non-controllable costs and income and influenceable costs provided below).

FAIR REMUNERATION

Fair remuneration is the return on capital invested in the grid. It is based on the average annual value of the regulated asset base (RAB), calculated annually, taking into account new investments, depreciations and changes in working capital.

In this context, fair remuneration is calculated based on a formula that allocates a different return to equity accounting for up to 33% of the RAB (Part A) and to equity exceeding this ratio (Part B).
This formula is as follows:

Fair remuneration = A + B where:
• A = [33% x average RAB of the year n x [(OLO n) + (beta x risk premium)] x illiquidity premium]; plus
• B = [(S – 33%) x average RAB x (OLO n + 70 base points)]; where:
• OLO n is the interest rate for Belgian 10-year linear bonds for the year in question;
• S = consolidated capital and reserves/average RAB, in accordance with Belgian accounting standards (BE GAAP);
• beta (β) is calculated based on Elia share prices, compared with the BEL 20 index, over a three-year period; the value of beta cannot be lower than 0.53:
• the risk premium is fixed at 3.5%;
• the illiquidity premium is fixed at 1.10.

PART A

The rate of remuneration (in %) as set by CREG for year 'n' is equal to the sum of the risk-free rate, i.e. the average rate of Belgian 10-year linear bonds and a premium for share-market risk, weighted using the applicable beta factor.

The reference ratio of 33% is applied to Elia's average regulated asset base (RAB) to calculate Elia's reference equity.

By means of this ratio, CREG encourages the proportional share between equity and regulated asset base to be as close as possible to 33%. As a consequence, Part B (applicable to the reference equity exceeding 33% of the RAB) is remunerated at a lower rate.

PART B

If the actual proportional share of Elia's actual equity exceeds the reference ratio, the surplus amount is balanced out with a rate of remuneration calculated as follows: [(OLO n + 70 base points)].

The Electricity Act also provides for the possibility of the regulator setting higher remuneration rates for capital that is invested to finance projects of national or European interest (see 'Other incentives' below).

Non-controllable costs and revenues

This category of costs and revenues over which Elia has no direct control is not subject to the incentive mechanisms offered by CREG, and is allocated in its entirety to the calculation of the revenue to be covered by tariffs. The tariffs are set on the basis of the forecast values of these costs, and the difference from the actual values is allocated ex post to the tariff calculation for the subsequent period.

The main non-controllable costs are: depreciation of tangible fixed assets, ancillary services (except for the reservation costs of ancillary services excluding black start, which are referred to as "influenceable costs"), costs related to line relocation imposed by a public authority, and taxes. They also include financial charges to which the embedded debt principle applies. As a consequence, all actual and reasonable financial costs related to debt financing are included in the tariffs.
Some revenues are also non-controllable. These include cross-border congestion revenues and financial revenues.

Controllable costs and revenues

The costs and revenues over which Elia has direct control are subject to incentive regulation mechanisms, meaning that Elia is encouraged to reduce these costs and increase these revenues. Therefore, Elia's efficiency efforts (and conversely any inefficiency) are divided equally between Elia profits and future tariffs (50% each).

Influenceable costs

The reservation costs of ancillary services, except for black start, are categorised as 'influenceable costs', meaning that Elia's profits are partially affected (to the tune of 15%) by increases and reductions in these costs, within certain limits (ranging from -€2 million to €6 million).

Other incentives

- *Market integration:* This incentive consists of three components: (i) enhancement of Belgium's import capacity; (ii) increase of social welfare generated by regional market coupling: both elements only have a positive impact on the net profit, with a maximum of €6 million for import capacity and a maximum of €11 million for social welfare (pre-tax). (iii) the profit (dividends and capital gains) resulting from Elia's financial participation in various other companies contributing to market integration (CASC, Coreso, HGRT, APX-ENDEX) is shared between Elia (40%) and future tariffs reductions (40%).

- *Investment programme:* This incentive is related to three objectives: (i) Elia's ex ante/ex post justification of the costs involved in each investment (this objective makes a contribution of up to €2.5 million to pre-tax profits); (ii) adherence to the planned dates for commissioning of the Stevin, Brabo, ALEGrO and fourth phase-shifting transformer (PST) projects (€1 million pre-tax per project commissioned on time); and (iii) production of a list of selected strategic projects, especially investments aimed at consolidating European integration (the "mark-up' incentive). The mark-up is calculated based on the actual cumulative amounts spent, whereby it must however be borne in mind that there are annual and project caps on amounts invested and that the incentive is calculated on the basis of the actual amounts invested. The mark-up applies in full when the OLO rate is 0.5% or less. It is reduced if the OLO rate is greater than 0.5% and decreases to 0 for an OLO rate of 2.16% or more. Please note that 10% of the mark-up amount obtained for each project must be repaid if the project is not completed by the stipulated deadlines or if the availability levels provided by the project after commissioning are unsatisfactory.

- *Continuity of supply*: Elia is entitled to an incentive calculated based on the Average Interruption Time (AIT) measured in the course of a year. The allocated sum is limited to €2 million (pre-tax).

- *Innovation:* This incentive is calculated based on the total costs incurred in obtaining innovation subsidies, up to a maximum sum corresponding to 50% of the amount of subsidies received or €1 million (pre-tax).

- *Discretionary incentive:* Each year, CREG sets the objectives Elia is expected to meet to receive this incentive. These mainly relate to the implementation of projects and mechanisms aimed at balancing supply and demand on the electricity market. This incentive contributes to the profit to the tune of up to €2 million (pre-tax).

Settlement mechanism: deviations from budgeted values

The actual volumes of electricity transmitted may differ from the forecast volumes. If the transmitted volumes are higher (or lower) than those forecast, the deviation is booked to an accrual account during the year in which it occurs and this deviation from budgeted values creates a regulatory debt (or a regulatory receivable) which will be used to calculate the tariffs for the subsequent period. The same mechanism applies to non-controllable costs.

Cost and revenue allocation between regulated and non-regulated activities

The tariff methodology for 2016-2019 features a mechanism enabling Elia to develop activities outside the Belgian regulated perimeter and whose costs are not covered by grid tariffs in Belgium. This methodology establishes a mechanism to ensure that the impact on Belgian grid users of Elia's financial participation in other companies which CREG does not consider part of the RAB (such as stakes in regulated or non-regulated activities outside Belgium, for example its participation in 50Hertz or EGI) is neutral.

9.2 Regulatory framework in Germany

9.2.1 Relevant legislation

The German legal framework is laid down in various pieces of legislation. The key law is the German Energy Act (*Energiewirtschaftsgesetz* – EnWG), which defines the overall legal framework for the gas and electricity supply industry in Germany. The EnWG is supported by a number of laws, ordinances and regulatory decisions, which provide detailed rules on the current system of incentive regulation, accounting methods and network access arrangements, including:

- the Ordinance on Electricity Network Tariffs (*Verordnung über die Entgelte für den Zugang zu Elektrizitätsversorgungsnetzen* (*Stromnetzentgeltverordnung* – StromNEV)), which establishes, inter alia, principles and methods for the grid-tariff calculations and other obligations applying to grid operators;

- the Ordinance on Electricity Network Access (*Verordnung über den Zugang zu Elektrizitätsversorgungsnetzen (Stromnetzzugangsverordnung* – StromNZV), which, inter alia, sets out the further detail how to grant access to the transmission systems (and other types of grids) by way of establishing the balancing amount system (*Bilanzkreissystem*), scheduling of electricity deliveries, control energy and other general obligations, e.g. congestion management (*Engpassmanagement*), publication obligations, metering, minimum requirements for various types of contracts and the duty of certain system operators to manage the balancing amount system for renewable energy;

- the Ordinance on Incentive Regulation (*Verordnung über die Anreizregulierung der Energieversorgungsnetze (Anreizregulierungsverordnung* – ARegV)), which sets out the basic rules for incentive regulation of TSOs and other system operators (as set out in more detail below). It also describes in general terms how to benchmark efficiency, which costs are included in the efficiency benchmarking, how to determine inefficiency and how this translates into yearly targets for efficiency growth.

9.2.2 Regulatory agencies in Germany

The regulatory agencies for the energy sector in Germany are the Bundesnetzagentur (BnetzA, or Federal Network Agency) in Bonn for grids to which over 100,000 grid users are directly or indirectly connected and the specific regulatory authorities in the various federal states for grids to which fewer than 100,000 grid users are directly or indirectly connected. The regulatory agencies are, inter alia, in charge of ensuring non-discriminatory third-party access to grids and monitoring the grid-use tariffs levied by the TSOs. 50Hertz Transmission and 50Hertz Offshore are subject to the authority of the Federal Network Agency.

9.2.3 Tariff setting in Germany

The current regulation mechanism is established in Germany by the ARegV. Under the ARegV, grid tariffs are defined to generate a pre-defined 'revenue cap' as determined by the Federal Network Agency for each TSO and for each regulatory period. The revenue cap is principally based on the costs of a base year, and is fixed for the entire regulatory period, except when it is adjusted to account for specific cases provided for in the ARegV. The grid operators are not allowed to retain revenue in excess of their individually determined revenue cap. Each regulatory period lasts five years, with the second regulatory period starting on 1 January 2014 and ending on 31 December 2018. Tariffs are public and cannot be the subject of negotiations with customers. Only certain customers (under certain set circumstances laid down in the relevant legislation) are allowed to agree to individual tariffs according to Article 19 of the StromNEV (for example, in the case of sole use of a network asset). The Federal Network Agency has to approve such individual tariffs.

For the purposes of the revenue cap, the costs incurred by a grid operator fall into two categories as follows:

- Permanently non-influenceable costs (PNIC): These costs are fully integrated into the 'revenue cap' and are fully recovered by the grid tariffs, albeit usually with a two-year time lag. They include return on equity, imputed trade tax, cost of debt, depreciation and operational costs (currently at a fixed rate of 0.8% of the capitalised investment costs of the respective onshore investments) for what are called investment measures. The cost of debt related to investment measures is currently capped at the lower value of the actual cost of debt and the cost of debt as calculated in accordance with published Federal Network Agency guidelines. Since 2012, the costs associated with these investment measures have been based on forecast values. The differences between the forecast values and the actual values are reflected in the regulatory account. In addition, Permanently non-influenceable costs include costs relating to ancillary services, grid losses and redispatch costs, as well as European initiatives and income from auctions. These costs and income are included in the revenue cap based on a procedural regulation mechanism set by the Federal Network Agency in accordance with Article 11(2) of the ARegV (FSV). The regulation process relating to ancillary services and grid losses costs gives the system operator an incentive to outperform the planned costs through bonus/malus mechanisms. Since the revision of the ARegV in 2016, also costs for the curtailment of renewable energy sources to relieve grid congestion are based on forecast values. Moreover, costs resulting from European projects of common interest (PCI) where a cost contribution of Germany has been decided can be included as PNIC, albeit with a two-year time lag.

- Temporary non-influenceable costs (TNIC) and influenceable costs (IC): These costs include return on equity, depreciation, cost of debt, imputed trade tax and other operational expenses and are subject to an incentive mechanism as set by the Federal Network Agency, which features an efficiency factor (only applicable to IC), a productivity factor improvement and an inflation factor (applicable to both TNIC and IC) over a five-year period. In addition, the current incentive mechanism provides for the use of a quality factor, but the criteria and implementation mechanism for such a factor for TSOs are yet to be described by the Federal Network Agency. The various defined factors give the TSOs a medium-term objective to eliminate what are deemed to be inefficient costs. As regards the cost of debt, the permitted cost of debt related to influenceable costs needs to be shown to be marketable;

As for return on equity, the relevant laws and regulations set out the provisions relating to the permitted return on equity, which is included in the TNIC/IC for assets belonging to the regulatory asset base and the PNIC for assets approved in investment budgets. For the second regulatory period (2014-2018), the return on equity is set at 7.14% for investments made before 2006 and 9.05% for investments made since 2006, based on 40% of the total asset value being regarded as 'financed by equity' with the remainder being treated as 'quasi-debt'. In 2016, the BNetzA determined the return on equity applicable for the third regulatory period (2019-2023); the values were significantly down from the second regulatory period, namely to 5.12% for investments made before 2006 and 6.91% for investments made since 2016. The return on equity is calculated before corporate tax and after imputed trade tax.

Separately from the revenue cap, 50Hertz is compensated for costs incurred related to its renewable energy obligations, including EEG and CHP/KWKG obligations and offshore liabilities. For this purpose, various surcharges have been implemented that are subject to specific regulatory mechanisms aimed at a balanced treatment of costs and income.

CHANGES IN TARIFF REGULATIONS

In 2016, a revision of the ARegV entered into force implementing various relevant changes, especially regarding the regulatory system for distribution system operators. However, also TSOs are affected as the ARegV revision changes several PNIC aspects such as the methodology for the determination of replacement portions in new investment measures (for already approved and applied-for investment measures, the conservation of the status quo is foreseen), the consideration of costs from the curtailment of renewable energy sources based on forecast values and the consideration of PCI costs. Moreover, the ARegV revision substantiates the methodologies that can be applied to measure the individual efficiency of the four German TSOs, allowing for only an international benchmark or a relative reference grid analysis for this purpose.

As of 31 December 2017, 50Hertz had obtained approval for 86 of the 123 active investment-measure requests made since 2008.

Based on the total investment-budget request volume of €13 billion, the approved investment budget for the same date accounts for €8.7 billon.

TARIFFS

Grid access tariffs were calculated based on the respective revenue cap and published on 29 September 2017 for 2018. Compared with 2017, they have decreased by an average of 11%. 50Hertz has actively and successfully proceeded with its grid extension projects. Due to the commissioning of new lines, it was possible to lower costs for redispatch and for curtailment of renewables and in this way compensate for the persistently high costs of grid extension which enabled this decrease in the tariffs.

In recent years, the grid access tariffs of the four German TSOs have developed differently, mainly driven by the different volumes of renewable energies installed in the control areas, leading to significantly higher tariffs in those control areas with higher levels of renewable energies. In July 2017, the Act for Modernisation of Grid Tariffs (*Netzentgeltmodernisierungsgesetz* – NEMoG) came into force. The NEMoG envisages the gradual harmonisation of the grid access tariffs of the four German TSOs as of 2019, culminating in uniform transmission tariffs in 2023. Moreover, the NEMoG eliminates 'avoided grid fees' (vNNE) for volatile RES generation and a new system for offshore grid connections, shifting the related costs from the tariffs to a surcharge.

JOINT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

ADD REPORT – 2 to 3 pages

INFORMATION ABOUT THE PARENT COMPANY

Extracts from the statutory annual accounts of Elia System Operator NV/SA, drawn up in accordance with Belgian accounting standards, are given hereafter in abbreviated form.

Pursuant to Belgian company legislation, the full financial statements, the annual report and the joint auditors' report are filed with the National Bank of Belgium.

These documents will also be published on the Elia website and can be obtained on request from Elia System Operator NV/SA, Boulevard de l'Empereur 20, 1000 Brussels, Belgium. The joint auditors issued an unqualified opinion.

Statement of financial position after distribution of profits

ASSETS (in million EUR)	2017	2016
FIXED ASSETS	3,677.8	3,620.7
Financial fixed assets	3,677.8	3,620.7
Affiliated companies	3,572.3	3,572.3
Participating interests	3,572.3	3,572.3
Other enterprises linked by participating interests	105.6	48.4
Participating interests	105.4	48.2
Other participating interests	0.2	0.2
CURRENT ASSETS	1,893.9	1,628.5
Amounts receivable after more than one year	147.8	63.0
Trade receivables	8.8	8.8
Other amounts receivable	139.0	54.2
Inventories and contracts in progress	4.9	5.8
Contracts in progress	4.9	5.8
Amounts receivable within one year	1,585.3	1,428.4
Trade debtors	215.6	208.8
Other amounts receivable	1,369.8	1,219.6
Investments	30.0	0.0
Other term deposits	30.0	0.0
Cash at bank and in hand	117.9	126.9
Deferred charges and accrued income	8.0	4.5
TOTAL ASSETS	**5,571.7**	**5,249.3**

EQUITY AND LIABILITIES (in million EUR)	2017	2016
CAPITAL AND RESERVES	1,765.2	1,764.1
Capital	1,519.0	1,518.7
Issued capital	1,519.0	1,518.7
Share premium account	11.9	11.8
Reserves	174.7	173.9
Legal reserve	173.0	173.0
Untaxed reserve	1.6	0.9
Profit carried forward	57.2	59.7
PROVISIONS, DEFERRED TAXES	0.4	0.5
Provisions for risks and charges	0.4	0.5
Other risks and charges	0.4	0.5
LIABILITIES	3,806.0	3,484.7
Amounts payable after one year	2,839.2	2,590.7
Financial debts	2,839.2	2,590.7
Unsubordinated debentures	2,343.4	2,094.9
Credit institutions	0.0	0.0
Other loans	495.8	495.8
Amounts payable within one year	389.4	418.1
Current portion of amounts payable after more than one year	0.0	20.0
Financial debts	4.3	82.7
Credit institutions	0.0	78.0
Other loans	4.3	4.7
Trade debts	186.4	204.9
Suppliers	179.3	196.1
Advances received on contracts in progress	7.1	8.8
Amounts payable regarding taxes, remuneration and social security costs	8.7	7.7
Taxes	0.7	0.6
Remuneration and social security	8.0	7.1
Other amounts payable	192.5	102.8
Accrued charges and deferred income	577.4	475.9
TOTAL EQUITY AND LIABILITIES	**5,571.7**	**5,249.3**

Income statement

(in million EUR)	2017	2016
OPERATING INCOME	**799.4**	**732.9**
Turnover	792.2	714.7
Increase/(decrease) in inventories of finished goods, works and contracts in progress	(0.9)	1.0
Other operating income	8.1	17.2
OPERATING CHARGES	**(704.7)**	**(669.8)**
Services and other goods	(666.5)	(634.2)
Remuneration, social security costs and pensions	(38.1)	(35.2)
Amounts written off stocks, contracts in progress and trade debtors: appropriations/(write-backs)	(0.2)	(0.2)
Provisions for liabilities and charges: appropriations/(uses and write-backs)	0.0	0.2
Other operating charges	(0.0)	0.4
OPERATING PROFIT	**94.8**	**63.1**
Financial income	**98.0**	**182.6**
Income from financial fixed assets	90.4	123.0
Income from current assets	7.6	4.9
Non-recurring financial income	0.0	54.7
Financial charges	**(88.9)**	**(97.2)**
Debt charges	(86.7)	(93.9)
Other financial charges	(2.2)	(3.3)
Non-recurring financial charges	0.0	0.0
PROFIT FOR THE PERIOD BEFORE TAXES	**103.8**	**148.5**
Income taxes	**(6.9)**	**(11.3)**
Income taxes	(6.9)	(11.3)
PROFIT FOR THE PERIOD	**96.9**	**137.2**
Transfer to untaxed reserves	(0.8)	(0.8)
PROFIT FOR THE PERIOD AVAILABLE FOR APPROPRIATION	**96.1**	**136.4**