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## **Independent auditors' report to the general meeting of Elia System Operator NV/SA on the consolidated financial statements for the year ended 31 December 2017**

As required by law, we report to you as joint statutory auditors of Elia System Operator NV/SA (the "Company") and its subsidiaries (together the "Group"). This report includes our opinion on the consolidated statement of the financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2017 and the notes (all elements together the "Consolidated Financial Statements") and includes as well our report on other legal and regulatory requirements. These two reports are considered as one report and are inseparable.

We have been appointed as joint statutory auditors by the shareholders meeting of 16 May 2017, in accordance with the proposition by the Board of Directors following recommendation of the Audit Committee and on recommendation of the workers council. Our mandate expires at the shareholders meeting that will deliberate on the annual accounts for the year ending 31 December 2019. We performed the audit of the Consolidated Financial Statements of the Group during respectively 17 consecutive years for KPMG Bedrijfsrevisoren BCVBA and 16 consecutive years for Ernst & Young Bedrijfsrevisoren BCVBA.

### **Report on the audit of the Consolidated Financial Statements**

#### **Unqualified opinion**

We have audited the Consolidated Financial Statements of Elia System Operator NV/SA, which consists of the consolidated statement of the financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2017 and the notes, which show a consolidated balance sheet total of € 6,596.5 million and of which the consolidated income statement shows a profit for the year of € 229.1 million.

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

#### **Basis for the unqualified opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the consolidated financial statements" section of our report.

We have complied with all ethical requirements that are relevant to our audit of the Consolidated Financial Statements in Belgium, including those with respect to independence.

We have obtained from the Board of Directors and the officials of the Company the explanations and information necessary for the performance of our audit and we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current reporting period.

These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole and in forming our opinion thereon, and consequently we do not provide a separate opinion on these matters.

#### **Calculation of result of the period**

##### *Description*

As described in the notes 7.16 'Accruals and deferred income', 9.1.4 'Tariff Setting' and 9.2.3 'Tariff Setting in Germany' of the Consolidated Financial Statements, the net result of the Belgian and the German segments is determined by applying calculation methods set respectively by the Belgian federal regulator, the





Commission for Electricity and Gas Regulation (the "CREG") and the German federal regulator, the Federal Network Agency (the "BNetzA") (together the "Tariff Mechanisms").

Those tariff mechanisms are based calculation methods that are complex and require the use of parameters (average interest rate on governmental bonds, the Beta of Elia's share, return on equity, ...), accounting data of the regulated activities (the Regulated Asset Base, the regulated equity, CAPEX, subsidies received) and external operating data (such as hourly import capacity, consumer and producer surpluses).

Both Tariff Mechanisms make a distinction between income and expenses based on the control that Group has over the expenses and income in each segment. The deviations in regulated expenses and income qualified as non-controllable are fully passed on to future tariffs. The elements qualified as controllable are those that Group can control, and for which under-and overspending is (partly) attributable to the shareholders.

Therefore, the calculation methods of the group's net result is complex and requires judgement from management, more particularly related to the use of correct accounting data, operating data, parameters and formulas imposed by the regulators. The use of incorrect accounting and operating data, and deviations in used assumptions, can have a material impact on the Group's net result.

#### *How the matter was addressed in our audit*

Amongst others, we have performed the following procedures:

- Assessing the design and evaluating the operating effectiveness of key controls relating to the calculation of the net result, including those related to the completeness and accuracy of the underlying data used in the calculation;
- Evaluating the adequate and consistent classification of income and expenses by nature (controllable and non-controllable) as described in the Tariff Mechanisms;
- Performing independent mathematical recalculations of the net results of the segments based on underlying internal documentation and external information, and taking into account the formulas as described in the Tariff Mechanisms;
- Reading and evaluating the accounting implications of communications and decisions taken by the CREG and the BNetzA;
- Assessing the adequacy of the relevant notes.

## **Capitalization of property, plant and equipment**

### *Description*

Given the current evolution in the electricity environment towards green energy production, Elia has very significant investment projects ongoing to connect these new productions sites on Elia's network. The timely and on-budget progress of these investment projects is one of the key performance goals for Management as set by the Board of Directors. The progress of these network projects is equally a key performance indicator for investors as a key driver of their return on investment is the maintenance and expansion of the network. It is also an important quantitative and qualitative measure for the regulators. This is further explained and evidenced in Note 7.1 'PPE' of the Consolidated Financial Statements and in Note 4 'Segment reporting'.

For the Belgian Segment, these assets are classified as PP&E, with a total capital expenditure of € 377 million in 2017 and a net book value of € 3,202 million as at 31 December 2017 or 53.2% of total assets of the Belgian Segment and 48.5% of the total assets of the Group.

Elia's accounting policies describe that all maintenance expenses are considered to be OPEX (€ 69 million in 2017) and all new project or replacement investments are considered CAPEX (€ 377 million in 2017). As network projects can include both maintenance and investments, the classification as either OPEX or CAPEX requires judgement from management. Given this judgement, the importance of the amount of Property, Plant, and Equipment on the total assets, and its relevance to the users of the financial statements as well as the prominence in Elia's communication in its press releases and in investor's presentations on the progress on new projects, this matter is considered a key audit matter.

### *How the matter was addressed in our audit*

Amongst others, we have performed the following procedures:

- Assessing the design and evaluating the operating effectiveness of key controls over the appropriate authorization of capitalization, the compliance of capitalization criteria used with the accounting policies, the correct classification of expenditures either as CAPEX or as OPEX, management's review controls over the capitalization process as well as relevant IT application controls with the support of our IT specialists;



- Performing substantive analytical procedures on CAPEX and OPEX by comparing current year figures with the budgeted figures as approved by the regulator at the level of asset classes and projects;
- Testing a sample of additions to PP&E, including those under construction, and assessing whether the expenditure met the criteria for capitalization under IFRS as adopted by the European Union and the Group's accounting policies and whether the CAPEX were allocated to the correct projects, including the assessment of management judgement in case of a project including both maintenance and investments;
- We have assessed the adequacy of the relevant notes.

### **Responsibilities of the Board of Directors for the preparation of the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation of the Consolidated Financial Statements that give a true and fair view in accordance with IFRS and with applicable legal and regulatory requirements in Belgium as well as internal controls relevant to the preparation of the Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the Consolidated Financial Statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, and provide, if applicable, information on matters impacting going concern. The Board of Directors should prepare the financial statements using the going concern basis of accounting, unless the Board of Directors either intends to liquidate the Company or to cease business operations, or has no realistic alternative but to do so.

### **Our responsibilities for the audit of the Consolidated Financial Statements**

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

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

- ▶ Identification and assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, the planning and execution of audit procedures to respond to these risks and obtain audit evidence which is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatements is larger when these misstatements are due to fraud, since fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ Obtaining insight in the system of internal controls that are relevant for the audit and with the objective to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- ▶ Evaluating the selected and applied accounting policies, and evaluating the reasonability of the accounting estimates and related disclosures made by the Board of Directors as well as the underlying information given by the Board of Directors;
- ▶ Conclude on the appropriateness of Board of Director's use of the going-concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to event or conditions that may cast significant doubt on the Company or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company or Group to cease to continue as a going-concern;
- ▶ Evaluating the overall presentation, structure and content of the Consolidated Financial Statements, and of whether these financial statements reflect the underlying transactions and events in a true and fair view; and





- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee within the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee within the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee within the Board of Directors, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our report, unless the law or regulations prohibit this.

## Report on other legal, regulatory and professional requirements

### Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and the content of the Board of Director's report and other information included in the annual report.

### Responsibilities of the auditors

In the context of our mandate and in accordance with the additional standard to the ISA's applicable in Belgium, it is our responsibility to verify, in all material respects, the Board of Director's report and other information included in the annual report, as well as to report on these elements.

### Aspects relating to Board of Director's report and other information included in the annual report

In our opinion, based on specific work performed on the Board of Director's report, the Board of Director's report is consistent with the Consolidated Financial Statements for the same financial year and has been prepared in accordance with article 119 of the Belgian Companies Code.

In the context of our audit of the Consolidated Financial Statements, we are also responsible to consider whether, based on the information that we became aware of during the performance of our audit, the Board of Director's report and other information included in the annual report, being:

- Key figures (pg 12-13)
- Management discussion and analysis of the 2017 results (pg 126-129)

contain material misstatements, or information that is incorrectly stated or misleading. In the context of the

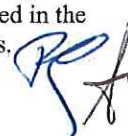
procedures carried out, we did not identify any material misstatements that we have to report to you. We do not express any assurance on the annual report.

The non-financial information required by article 119 §2 of the Companies' Code has been included in the board of directors' annual report on the consolidated financial statements, which is included in the chapter Sustainability reporting (pg 23-101) of the annual report. The Group has prepared this non-financial information based on the Global Reporting Initiative Standards ("GRI"). However, we do not comment on whether this non-financial information has been prepared, in all material respects, in accordance with the mentioned GRI. In addition, we do not express any form of assurance regarding the individual elements included in this non-financial information.

### Independence matters

Our auditor's office and our network has not performed any services that are not compatible with the statutory audit of the Consolidated Financial Statements and has remained independent of the Company during the course of our mandate.

The fees related to additional services which are compatible with the statutory audit of the Annual Accounts as referred to in article 134 of the Belgian Companies Code were duly itemized and valued in the notes to the Consolidated Financial Statements.



**Other communications**

- This report is consistent with our additional report to the Audit Committee as specified in article 11 of the regulation (EU) nr. 537/2014.

Brussels, 30 March 2018

The joint statutory auditors

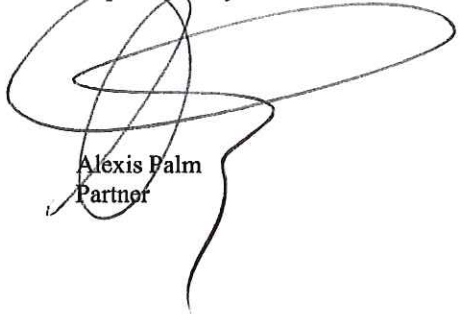
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