ANNUAL FINANCIAL REPORT **2016**

FLUXYS

7th financial year
Reports to the Annual General Meeting of 9 May 2017

Contents

Fluxys in a nutshell

Our vision: Europe needs natural gas and Fluxys builds bridges between markets

Natural gas will remain a core component of the energy mix in tomorrow's low-carbon economy. As a natural gas infrastructure company, Fluxys aims to build bridges between markets so that suppliers can transport natural gas flexibly to their customers or between European gas trading places.

Our mission

- Connect and promote liquid trading points and ensure security of supply
- Operate infrastructure safely, efficiently and sustainably
- Provide quality services tailored to market expectations
- Create long-term value for shareholders

Our values

Customer focus - We monitor our environment closely and listen to our customers' needs. This approach provides the driving force enabling us to achieve the results we strive for.

Cohesion - Cooperation and team spirit are key to jointly achieve our objectives.

Professionalism and commitment – We are committed to achieving our results by adopting an efficient approach and ensuring we are guided by best practices in everything we do. We systematically develop our expertise and continually seek creative and reasonable cost solutions.

Safety and the environment – We jointly give priority to the safety of our facilities because we are responsible for the transmission of an energy source that entails risks. In the same spirit of sustainability, we strive to minimise the environmental impact of our operations whilst keeping a close eye on well-being at work.

Good neighbourly relations – We provide services of general economic interest and have to ensure our activities are properly integrated in society. Through open dialogue, we want to establish good relations and cooperate with all those affected by the construction and operation of our facilities.

Our strategy

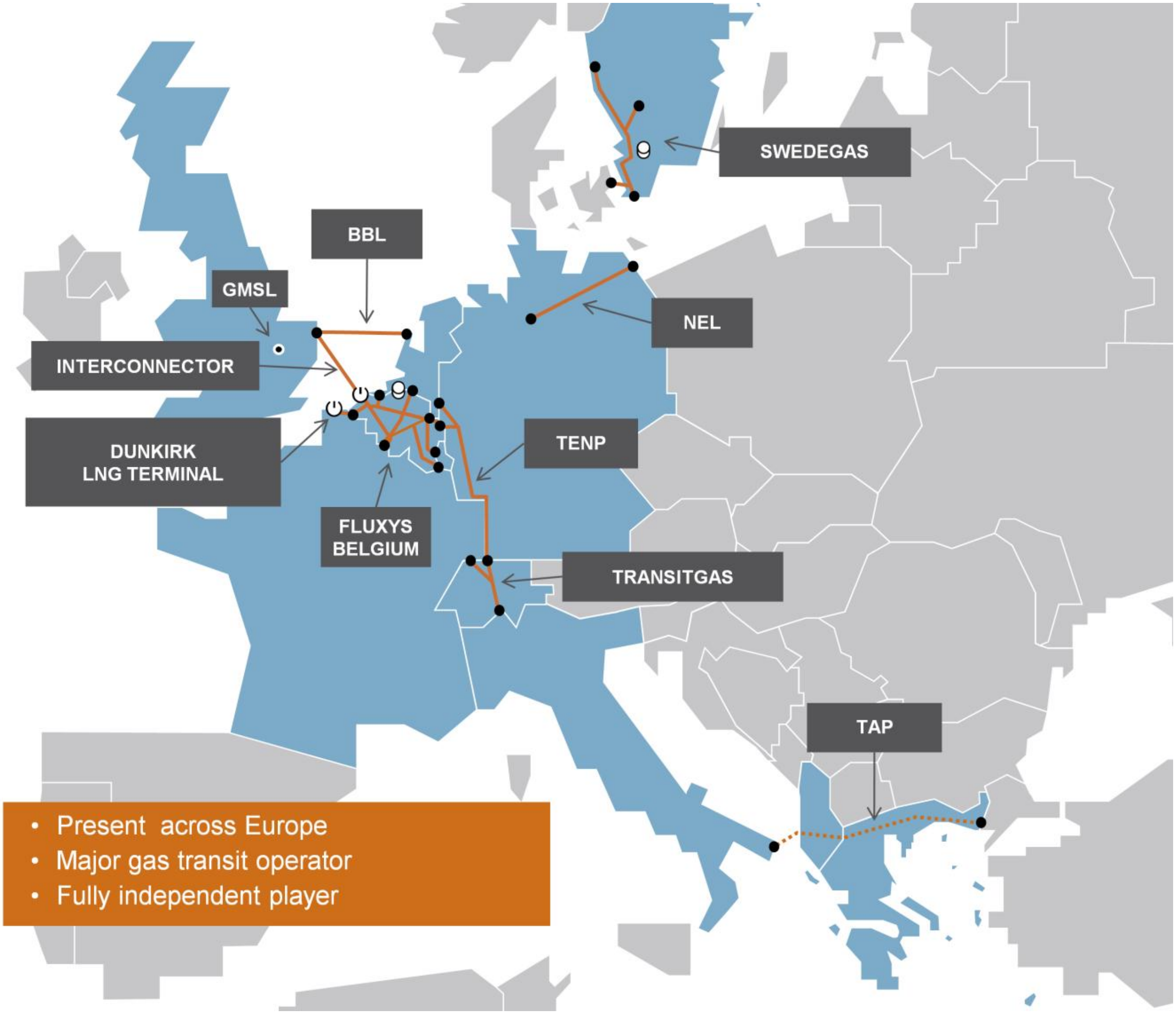
Three activities. Fluxys is active in three core activities: transmission, storage and LNG terminalling. This combined know-how is a major asset in the European market and enables a diversified portfolio of activities to provide a better return.

Remain competitive in the market. Fluxys endeavours to ensure that its tariffs and services are as competitive as possible and its investments contribute to security of supply and well-functioning markets.

Further expand towards a broad asset base in natural gas infrastructure. Fluxys wants to further expand its role as a crossroads for cross-border natural gas transmission in Europe from its central position in Belgium. The company therefore has the ambition to play an active role in the development of new infrastructure and the takeover of existing assets through profitable long-term investments. Europe is Fluxys' core market but in order to achieve a wider spread of underlying regulatory and business cycle risks, the company also envisages investment projects outside Europe, focusing primarily on LNG infrastructure.

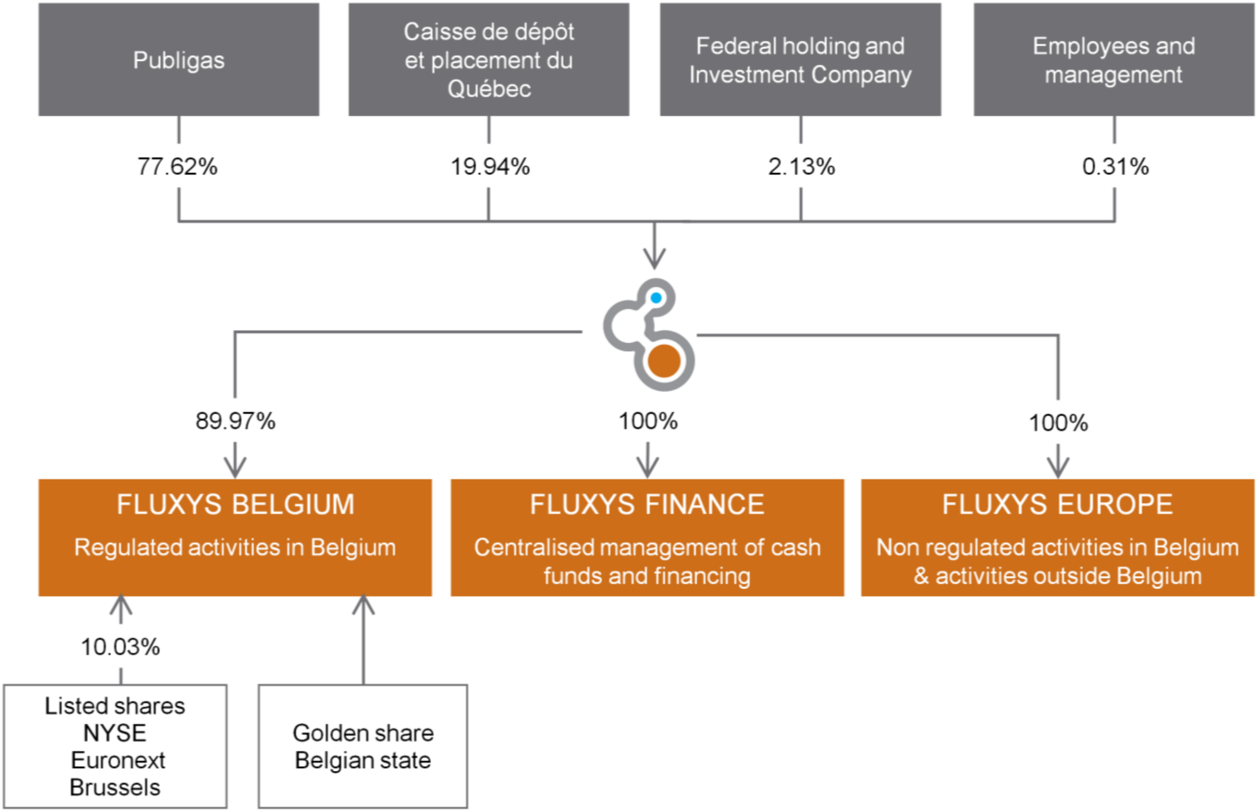
Strengthen our expertise and partnerships. To successfully implement its strategy, Fluxys values the development of its employees' know-how and builds strong alliances with solid partners.

Fluxys: natural gas infrastructure company

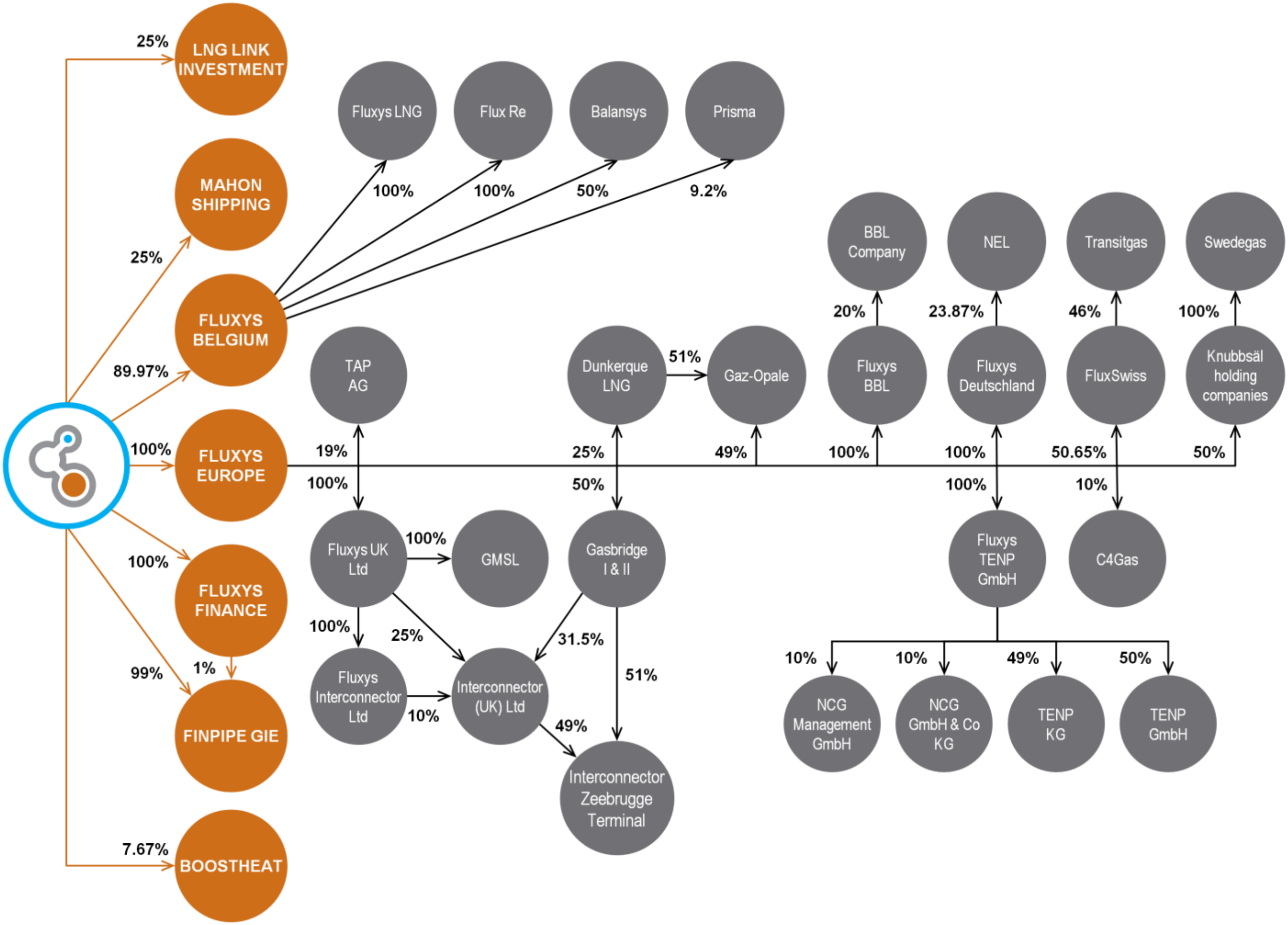


- Present across Europe
- Major gas transit operator
- Fully independent player

Shareholders and structure of the group as at 29 March 2017



The companies making up the Fluxys Group as at 29 March 2017



Corporate bodies as at 29 March 2017

Board of Directors

Daniel Termont, Chairman of the Board of Directors
Claude Grégoire, Vice-Chairman of the Board of Directors
Pascal De Buck, Managing Director and CEO
Jos Ansoms (since 10 May 2016)
François Fontaine
Andries Gryffroy
Luc Hujoel
Patrick Moenaert (until 10 May 2016)
Renaud Moens
Josly Piette
Yves Rheault
Louis-M. St.-Maurice
Christian Viaene

Nicolas Daubies, Company Secretary and Legal Manager, acts as secretary to the Board of Directors.

Audit Committee

Renaud Moens, Chairman of the Audit Committee
Ludo Kelchtermans
Yves Rheault
Pascal De Buck, invited with an advisory vote

Nicolas Daubies, Company Secretary and Legal Manager, acts as secretary to the Audit Committee.

Appointment and Remuneration Committee
Christian Viaene, Chairman of the Appointment and Remuneration Committee
Mireille Deziron
Luc Hujoel
Pascal De Buck, invited with an advisory vote

Anne Vander Schueren, Human Resources Manager, acts as secretary to the Appointment and Remuneration Committee.

Management Team
The Management Team is responsible for the daily and operational management of the company. The Management Team also makes investment proposals to the Board of Directors within the framework of the company strategy.

Pascal De Buck, Managing Director and CEO
Arno Büx, Chief Commercial Officer
Paul Tummers, Chief Financial Officer
Peter Verhaeghe, Chief Technical Officer

I. ANNUAL REPORT

In accordance with the Belgian Company Code, the Board of Directors is pleased to present the annual report for financial year 2016 for your company and the group and to submit for your approval the annual accounts for the period ending 31 December 2016.

Significant events after the balance sheet date, see p. 173-174:

- Fluxys Belgium and Belgian energy regulator CREG plan to reduce the transmission tariffs for natural gas by 7.5% on 1 January 2018;
- Transitgas and FluxSwiss renegotiated financing arrangements in Switzerland;
- The Boards of Directors of Fluxys Finance and Fluxys approved the absorption of Fluxys Finance by Fluxys.

Declaration regarding the financial year closed on 31 December 2016

I, Pascal De Buck, Managing Director and CEO, hereby attest that to my knowledge:

a) the annual accounts, drawn up in accordance with the applicable standards for annual accounts, give a true and fair view of the company's assets, liabilities, financial position and profit or loss and those of the companies included in the consolidation scope;

b) the annual report gives a fair review of the development and performance of the business and of the position of the company itself and of the companies included in the consolidation scope, together with a description of the principal risks and uncertainties that they face.

Brussels, 29 March 2017

Pascal De Buck
Managing Director and CEO

Foreword

2016 was a good year for Fluxys. The Fluxys Group companies managed to maintain a high degree of continuity in their operational activities and through competitive tariffs and a proactive sales approach kept sold capacity at a decent level despite the trend towards a short-term market. The group's activities generated solid levels of operational cash flow and its sound financial structure allowed to offer shareholders again a 5% increase in dividend in spite of low interest rates. The men and women working for Fluxys are the driving force behind these good results. Their know-how, dedication, creativity and agility have ensured that the group has continued to move in the right direction, and their team spirit and commitment inspire confidence in the future.

Focus on sustainable growth

Fluxys' commercial and operational strength is the foundation on which the group shapes its growth strategy. In this light and against the backdrop of decreasing European natural gas production and a growing need for imports, the Dunkirk LNG Terminal was completed in 2016 and the facility started commercial operations in early 2017. Further south, construction work on the Trans Adriatic Pipeline (TAP) is on track. Due for commissioning in 2020, TAP will allow additional gas to be supplied from Southern Europe. Moreover, the group is closely monitoring the opportunities that might arise from new projects along the TAP route. At the same time, we actively promote Fluxys infrastructure as a means of importing additional high-calorific gas to Germany and France to replace low-calorific gas as its availability diminished due to declining production levels.

In its growth strategy the group also works towards retaining a good mix of new and existing infrastructure, prompting it to look into various acquisitions in 2016. However, none of these actually came about as opportunities in Europe were limited, regulated assets such as natural gas infrastructure proved to be highly sought after in a financial market with low interest rates, and the acquisition market saw very aggressive bidding strategies. In contrast, the criteria used by Fluxys aim to ensure a reasonable return and hold out the possibility of further developing the assets.

Placing even greater emphasis on innovation

In recent years, Fluxys has made major efforts to promote natural gas as an alternative fuel for cars, trucks and ships and to build infrastructure that makes refuelling easier. In 2016, the group took a new step on this innovative path by deciding to also invest in the fast-track development and market introduction of cutting-edge gas solutions for heating, industry and mobility. The group thus aims to foster demand for natural gas and the use of natural gas infrastructure, while the investments in themselves should also provide a decent return following the successful rollout of the technology. Fluxys made a first investment in this segment in 2016 with its investment in the innovative heating technology provided by boostHEAT.

Natural gas to remain key in the European energy mix of the future

Fluxys continues to believe that natural gas and natural gas infrastructure are to remain key in tomorrow's low-carbon economy because natural gas has the best emissions profile of any fossil fuel. This allows not only to cut carbon emissions but also to immediately curb the impact on air quality and offer solutions for high concentrations of particulate matter. With natural gas technology in addition being a strong energy-efficiency performer, this combination of factors means that natural gas offers particular benefits for electricity generation, the burgeoning market for natural gas as a transport fuel and in the heating market, where high-performance gas technology can meet demand for high energy efficiency solutions.

Moreover, natural gas infrastructure provides the ideal solution for transporting and storing large volumes of energy in a cost-efficient way, with cost-efficiency levels increasing in line with rises in utilisation rate. Natural gas infrastructure, in other words, has a key role to play in the efforts to keep the overall cost of the energy system affordable.

However, all this cannot disguise the fact that whether in Belgium or at European level, electricity still takes pride of place in discussions about energy and the climate. Against this backdrop, Fluxys in 2016 made great efforts to set out its vision of the role of natural gas and natural gas infrastructure in the future across an array of forums and in its relations with various stakeholders, and we plan to keep pushing forward in this direction in 2017.

Due consideration for the further development of European regulation

Another priority for Fluxys are new developments in European regulation. For example, at the end of 2016 the European Commission published its Winter Package comprising a wide-ranging series of new regulatory proposals with a view to completing the internal energy market. A large number of the proposals focus on the electricity market, and the expectation is that these will be replicated for the natural gas market.

This approach was already applied various times in the past, thereby showing that in many cases too little attention is paid to the specifics of the natural gas market and what the European natural gas transmission system operators already deliver in practice. For this reason, Fluxys is carefully following developments relating to the Winter Package. In this respect it is not only important to avoid unnecessary additional regulation but also not to lose sight of the need for appropriate flexibility as the overall aim is to have a properly functioning market. Experience with the current regulation for that matter has taught us that limiting commercial freedom is making it increasingly complex for transmission system operators to devise innovative, diversified services and to provide timely responses to new needs in a rapidly evolving market.

Pascal De Buck
Managing Director and CEO

Daniël Termont
Chairman of the Board of Directors

1. Financial situation: key aspects

1.1. Key financial figures 2016 (consolidated)

Income statement	**(in thousands of €)**	**31.12.2016**	**31.12.2015**
Operating revenue		1,027,448	872,876
EBITDA *		668,107	567,283
EBIT *		251,563	295,504
Net profit		118,284	153,660
Balance sheet	**(in thousands of €)**	**31.12.2016**	**31.12.2015**
Investments in property, plant and equipment for the period		153,022	227,136
Total property, plant and equipment		4,315,600	4,551,379
Equity		2,403,901	2,568,147
Total consolidated balance sheet		6,584,994	6,816,929

* See glossary p. 194

Consolidation scope: In 2016, the consolidation scope changed as follows:

- In June 2016, Global Infrastructure Partners (GIP) sold its holding in FluxSwiss to Fluxys Europe (0.45%), Crédit Suisse (36.56%) and Swiss Gas Invest (7.89%). Following this acquisition, the total holding of Fluxys Europe in FluxSwiss increased to 50.65%. This investment has no impact on the method of consolidation, FluxSwiss already being fully consolidated in the Fluxys Group accounts.
- Huberator was liquidated in December 2016, the latter's activities having been taken over by Fluxys Belgium at the end of 2015.
- Fluxys acquired a holding of 7.67% in BoostHEAT in December 2016 through which it invests in innovative gas technology. This company is not consolidated by the Fluxys Group.
- Finally, as a reminder, the company Interconnector (UK) is fully consolidated in the accounts of the Fluxys Group since mid-December 2015. The different items in the profit/loss account recorded the contribution of Interconnector (UK) for a full year in 2016, which affects the comparison of figures with those of the previous financial year.

Operating revenue for 2016: €1,027.5 million. The revenue for the Fluxys Group came to €1,027.5 million in 2016 compared with €872.9 million in 2015, representing an increase of 17.7%. It can be broken down as follows:

- €508.2 million generated by transmission, storage and terminalling activities in Belgium and related activities representing 49.5% of the total operating revenue, and
- €519.3 million generated by activity outside Belgium, i.e. 50.5% of the total operating revenue.

This evolution as regards the revenue from outside Belgium can primarily be explained by the full consolidation of Interconnnector (UK).

EBITDA. In 2016, the Fluxys Group generated an EBITDA of €668.1 million compared with €567.3 million in 2015. As a result, Fluxys has a solid financial position which enables the group to maintain and develop its infrastructure in an increasingly international sphere.

EBIT. The Fluxys Group's EBIT came to €251.6 million compared with €295.5 million in 2015. The profit/loss from regulated activity in Belgium was affected by the fall in interest rates (OLO) and the ensuing regulated rate of return on capital invested. In 2015, it had benefited from the recovery of revaluation surpluses relating to the decommissioning of old installations, which is no longer permitted in 2016. The Fluxys Group continues with its ongoing efforts in terms of cost-control, which allows the group to generate efficiency gains. Outside Belgium, EBIT is down essentially following the prospective review of the depreciation method for the installations of Interconnector (UK) to better reflect the consumption of economic benefits associated with these installations. The Fluxys Group has a prudent policy as regards depreciation, as well as regarding amounts allocated to assets during business combinations.

€153 million invested in infrastructure projects. In 2016, the Fluxys Group made investments in infrastructure totalling €153 million in its three main areas of activity (transmission, storage and LNG terminalling). Of this total, 91% was invested in infrastructure projects in Belgium and 9% in infrastructure costs outside Belgium.

Financial participations. The Fluxys Group has invested €181.2 million in its financial participations, primarily in TAP and Dunkerque LNG.

Foreign currency fluctuations. The balance-sheet items were affected in 2016 by the negative effect of GBP currency fluctuations. The fall in GBP rates had an impact of €-65.7 million on the group's equity.

Indicators		in millions of €
	2016	2015
RAB *	**5,226**	**5,355**
Transmission	2,829	2,764
Storage	259	270
LNG terminalling	348	350
Other property, plant and equipment investments out of RAB *	**1,790**	**1,971**
EBITDA *	668.1	567.3
EBIT *	251.6	295.5
Net financial expenses	-86.8	-100.8
Net financial debt *	2,184.3	2,151.4

* See glossary p. 194

1.2. Fluxys SA –2016 results (under Belgian GAAP)

The net profit of Fluxys Belgium SA amounted to €126,821 thousand, compared with €83,243 thousand the previous year. The profit/loss for the financial year is mainly composed of the dividends paid by Fluxys Belgium, Fluxys Europe and Fluxys Finance.

If the proposal for the allocation of the profit is accepted at the General Meeting, the gross dividend for the 2016 financial year will be €138,749 thousand.

2. Market context and challenges

New volumes of LNG mainly going to markets outside Europe

In 2016, new LNG production capacity was commissioned, amounting to around 43 billion cubic metres of natural gas per year, mainly in the USA and Australia. Due to low natural gas prices in Europe, the majority of the additional LNG volumes went to other markets. Large quantities of Australian LNG went to China while the bulk of LNG from the USA was sold in South America, Asia and the Middle East.

Compared with 2015, LNG imports to Europe remained more or less at the same level or slightly lower, but with substantial variations between countries. Belgium and the UK imported significantly less LNG, while in France, LNG imports from Algeria rose sharply and Italy saw a moderate increase.

Additional imports required

According to initial estimates, Europe experienced slightly higher demand for natural gas in 2016 than in 2015, while natural gas production fell further. Due to this decline in European natural gas production, substantial new volumes of natural gas will need to be imported in future despite sluggish demand: forecasts indicate that Europe will need to import around 150 billion cubic metres more natural gas by 2035. In this light, efforts are being made to achieve wider source and supply route diversification.

Transmission: shift towards a short-term capacity market

Due to a combination of factors, capacity sales on the European natural gas transmission market have been under pressure for a number of years now. First, there is the demand for natural gas itself. Current natural gas consumption is about 10% lower than consumption in 2007. Moreover, system users are increasingly optimising their capacity portfolio, calculating as precisely as possible the capacity to be contracted based on the exact capacity they estimate they will need to supply their customers.

The trend towards increased capacity portfolio optimisation means that the practice of long-term capacity bookings is making way for more and more short-term capacity bookings. As it goaes, suppliers are increasingly buying their natural gas on a short-term basis at gas trading platforms, leading to more short-term capacity contracts. The shift towards short-term contracts is fuelled further by the new harmonised rules on system usage. As soon as long-term contracts expire, for example, capacity will have to be sold via auctions. And as there is more than enough capacity available in Northwest Europe, system users have an incentive to only buy short-term capacity.

In view of the shift towards more short-term contracts, the amount of capacity sold will become more volatile in line with short-term needs. This development is a substantial challenge for operators of regulated infrastructure like Fluxys, as the cost basis remains the same regardless of how much capacity is booked.

Another difficulty is that the harmonised rules on system usage limit commercial flexibility, which makes it increasingly complex to devise innovative, diversified services and to provide timely responses to new needs in a rapidly evolving market. The European regulatory framework for that matter is evolving into a micro-regulation in which the need for sufficient flexibility must be borne in mind as the overall aim is to have a properly functioning market.

Storage market still difficult

Europe has had a relative surplus of storage options for a few years now. In addition, stagnating demand for natural gas has resulted in an oversupply of natural gas on the gas trading places. This situation has resulted in structurally small price differences between winter and summer, which, in turn, have priced physical natural gas storage out of the market. Moreover, various European countries have taken measures to ensure that their storage facilities continue to play a role in ensuring security of supply, for example by obliging suppliers to book certain levels of storage capacity on national territory.

The challenge is to continue developing products and services that correspond as closely as possible to changing storage customers' needs. For this to be possible, the regulatory framework will need to continue offering the possibility to devise flexible responses to market needs.

Drawing attention to the role of natural gas in Europe

Climate policy in its focus on energy efficiency and carbon-free renewable energy will have a lasting impact on natural gas demand in Europe. At the same time, natural gas thanks to its substantial strengths will continue to play a key role in the future energy mix for households and SMEs, industry, electricity generation and mobility: natural gas has the best emissions profile of any fossil fuel and natural gas technology has a high performance rating.

However, there is considerable uncertainty surrounding policies in Europe, Belgium and various other Member States, making it impossible to get a clear idea of how natural gas demand will evolve in the years leading up to 2050. As electricity usually takes pride of place in politico-economic discussions, it is a fundamental challenge for the natural gas industry to claim attention for the contribution natural gas and natural gas infrastructure can make in their key role of complementing renewable energy sources. Sufficient attention should also be paid to the optimal use of existing infrastructure and the overall cost of the energy system in the future. From this perspective, natural gas infrastructure has the major advantage of being an excellent means of transporting and storing large volumes of energy in a cost-effective way, with cost-efficiency levels increasing in line with rises in utilisation rate.

Partner of renewable energy in electricity generation

In Europe, coal- and lignite-fired power generation dropped more than 10% in 2016, while generation from natural gas rose 20%, slashing 48 million tonnes of carbon emissions. The UK accounted for almost half of this shift due to the combined effect of the closure of coal-fired power stations and the carbon floor price that was set there. Elsewhere in Europe, the closure of coal-fired units also played a part, as well as the growing convergence of natural gas and coal prices.

Renewable sources will play an increasingly substantial part in the power market, but the amount of generation capacity to be replaced - coal- and lignite-fired power stations and nuclear units - cannot be solely provided by additional wind or solar capacity, additional interconnections and demand-side management. From this point of view, gas-fired power stations are the best option for providing both baseload and increasing flexibility as renewable generation grows, bringing with it greater variation in power generation levels.

The challenge for policymakers is to offer a solution for existing natural gas facilities. Today, many gas-fired power stations are out of operation or only run infrequently, making them unprofitable and also triggering under-utilisation of the gas infrastructure. As a result, there is a risk of capacity being permanently decommissioned that will be needed again in the foreseeable future. However, keeping existing capacity available is much more cost-effective than building new gas-fired power stations in a few years' time to restore lost capacity.

Major benefits for the transport market

Thanks to its favourable emissions profile, natural gas has a promising future as a transport fuel. As it goes, mobility accounts for a quarter of the European Union's CO_2 emissions from fuel consumption. Switching from petrol, diesel or heavy fuel oil to natural gas not only directly cuts carbon emissions but also directly reduces the impact on health, providing a solution to the smog problem in cities: nitrogen oxide emissions are up to 90% lower and emissions of sulphur and particulate matter are negligible.

LNG is an ideal alternative fuel for ships and long-distance trucks, whereas compressed natural gas (CNG) is a good solution for cars, vans and buses while offering similar comfort in terms of autonomy and fuelling time. The challenge in supporting this switch lies in developing the appropriate infrastructure for cars, trucks and ships to refuel easily with natural gas. In this light, an EU Directive on the deployment of alternative fuels infrastructure is in effect and Member States had to submit their plans for the rollout of the relevant refuelling facilities in November 2016.

Great potential in heat generation as well

Natural gas also has a major role to play in the heat generation market. As the importance of energy efficiency grows, so does the potential of high-efficiency natural gas technology. For example, combined heat and power (CHP) can expand much further in small and medium-sized applications and the technology for residential applications is currently fully developing. If CHP had a larger market share, gas and gas infrastructure would also contribute to the transition to more decentralised power generation and relieve power grids.

Other high-efficiency gas-fired heating technologies such as heat pumps and fuel cells are also an asset for encouraging end users to switch from other fossil fuels to natural gas in heating.

3. Focal areas in 2016

3.1. People: our bedrock in changing times

As an infrastructure system operator in the energy sector, Fluxys operates in a rapidly changing market that will keep evolving over a long period as the energy transition continues to take shape. To maintain its success in this context, it is vital for the company to still be able to count on competent, motivated employees and flexible employability from everyone.

The core of our HR policy is therefore all about activating the adaptability in the interplay between people, processes and structures. By doing this, Fluxys remains ready for today's challenges while at the same time preparing for the future. Fluxys can count on the expertise, commitment and motivation of over 1,200 employees in Belgium, France, Germany, Switzerland, the United Kingdom and Luxembourg.

Organisation moving with the growth strategy

Fluxys constantly examines its processes and structures in light of new challenges that materialise. After all, a transforming market requires an organisation that moves along with it. More efficient processes and structures are key to achieving the enhanced performance which the company strives for in a bid to pursue a sustainable growth and further bolster its position on the market. Employees have a crucial contribution to make here, as they are expected to critically analyse their day-to-day work methods, to be agile and to adapt to changes with an open mind.

In 2016, particular attention was paid to reorganising the lines of interaction between the subsidiaries and teams at head office to boost the Fluxys Group's operational and strategic effectiveness and its resilience with a view to further growth. The new way of working is taking the form of an increasingly flexible organisation by introducing short lines of communication and, for each process, small cross-functional teams of employees both at the subsidiaries and at head office.

Full focus on talent

Fluxys' talent management policy helps it to ensure that the right talent is in the right place at the right time to make an optimum contribution to the company's success against the backdrop of an evolving market and changing company processes and structures.

Based on its company objectives, Fluxys assesses its future staffing needs to gain a clear overview of which profiles and skills are required now and in the future. Consequently, our recruitment strategy is not simply focused on filling vacancies as they arise, but rather on finding motivated, committed individuals who can ultimately offer added value elsewhere in the company too. To attract and retain the right talent, Fluxys offers competitive salary packages in line with the market.

Personalised intake programmes and dynamic performance management are the two levers that Fluxys uses to support its employees in order to contribute optimally to the company's objectives. Furthermore, Fluxys' competence management together with a professional development and training programmes are geared towards providing employees with the support they need to fulfil both the company's objectives and their own professional ambitions.

Providing clarity and creating commitment

Fluxys attaches great importance to ensuring employees are familiar with the business context and the challenges the company faces, as this fosters personal commitment to the company's vision, strategy and objectives.

Transparent and constructive social dialogue

Good industrial relations are vital for cohesion within the company and for the development of activities, which is why Fluxys pursues a transparent and constructive social dialogue with all of the social partners.

3.2. Sale of capacity: focus on a customer-oriented approach and competitive tariffs

The Fluxys Group companies make every effort to boost efficiency and keep their tariffs as competitive as possible, while offering a range of services tailored to fit market needs and a commercial approach toward customers that responds quickly to short-term opportunities.

Transmission

Capacity for international natural gas transit. The focus on competitive tariffs and a customer-oriented approach is particularly important on the market for international natural gas transit capacity. As long-term contracts expire, the available capacity must be sold by means of short-term contracts in competition with other operators.

Consequently, when the new regulatory period started in early 2016, Fluxys Belgium was able to maintain the tariff reduction of 7% that had been introduced the year before and used new short-term contracts to largely offset the bookings lost when a number of long-term contracts expired.

Fluxys Deutschland sold the entire available capacity throughout the year. Fluxys TENP and FluxSwiss managed to sell a considerable amount of short-term capacity on top of the long-term capacity already booked, even though the price differences between the NCG gas trading point in Germany and the PSV gas trading point in Italy were less pronounced in 2016 than in 2015. Among other things, the cold spell in Italy at the end of the year resulted in huge price differences and volatility on the market, providing the possibility to respond to the demand for short-term capacity.

In the UK, the changing flexibility requirements in 2016 demonstrated once more how important Interconnector (UK) is for security of supply and as a flexible source of gas for the British market. In the summer, the Interconnector pipeline transmitted record volumes from the UK to Belgium and in the winter, record volumes flowed in the other direction.

Capacity for supplying national markets. In the segment of capacity for natural gas supply on the national market, bookings declined in Belgium despite higher transmitted volumes. The rising number of connections to distribution systems prompted a corresponding increase in capacity sales to distribution system operators and booked capacity for the industry experienced a slight increase. In the segment of electricity generation, a number of power stations optimised their capacity portfolios. In Sweden, booked capacity remained at the same level as the year before.

Storage

Owing to a contract expiring in the first half of 2016, the amount of capacity booked on a long-term basis in Belgium fell from approximately 70% to around 60%. The company's proactive approach to storage sales could not offset poor market conditions in the first half of the year and the remaining short-term capacity was not sold, similar to the same period in 2015. However, market conditions changed in July, when the UK was faced with storage scarcity. In this context, Fluxys Belgium succeeded in selling all remaining short-term capacity. In Sweden as well, Swedegas managed to sell the whole storage capacity via a commercial campaign.

LNG terminalling

At the LNG terminal in Zeebrugge, the available berthings at the first jetty are fully booked under long-term contracts. For the second jetty, commissioned in late 2016, some 200 loading operations have been booked for small LNG carriers under long-term contracts. Moreover, LNG carriers will also berth at the second jetty for transshipment services in the framework of the contract with Yamal Trade (see p. 33).

In addition, the terminal also offers the service of loading LNG trucks. Despite similar services being launched in other terminals in Northwest Europe, the number of loading operations sold rose significantly in 2016. A second loading station will be built in 2017 to ensure that the growing demand can be met quickly.

3.3. Focusing on innovative natural gas applications

Natural gas as a transport fuel: active on various fronts

Fluxys is active on various fronts to promote natural gas as a transport fuel and foster this promising but still burgeoning market. The main challenge in terms of fuel switch lies in developing the necessary infrastructure for cars, trucks and ships to refuel easily with natural gas.

Promoting CNG vehicles. In Belgium, Fluxys is successfully working with national gas federation Gas.be (formerly the Royal Association of Belgian Gas Companies), filling station operators and car manufacturers to promote the use of compressed natural gas (CNG) vehicles. In 2016 the number of CNG vehicles on the road doubled and the number of CNG filling stations also rose sharply.

Second jetty in use at the LNG terminal in Zeebrugge. In 2016, the second jetty at the Zeebrugge LNG terminal was completed and commissioned. The jetty was specially designed to also receive the smallest LNG carriers and consequently LNG bunker vessels can now also berth at the terminal. These are LNG carriers that supply both LNG-powered ships and LNG bunkering facilities in other ports.

The preliminary studies for the second jetty were co-financed by the European Commission within the framework of the Trans-European Energy Networks (TEN-E) programme, while a grant was awarded for the construction works through the Trans-European Transport Network (TEN-T) programme.

Co-financed by the European Union
Trans-European Transport Network (TEN-T)

LNG bunker vessel with Zeebrugge as its home port. The LNG bunker vessel Engie Zeebrugge will actually load LNG at the Zeebrugge terminal's second jetty from April 2017 onwards. In 2015, Fluxys took a 25% stake in the vessel which will initially service two LNG-powered car carriers operating in the Port of Zeebrugge.

This is the world's first purpose-built LNG bunkering vessel specifically designed for supplying LNG-powered vessels, which is a key milestone in the development of the European LNG bunkering chain. Up to now, LNG-powered vessels were predominantly assigned to fixed bunker locations or filled by the limited bunker capacity of LNG trucks. LNG bunker vessels, however, sail to the vessels they supply.

Sweden: researching small-scale LNG projects. Sweden is becoming a major growth market for small-scale LNG: the shipping sector is showing growing interest in switching to LNG and industry is also considering LNG as an alternative energy source an appealing solution. Based on this market demand dynamic, Swedegas is looking into various infrastructure projects to make small-scale LNG available in synergy with possibilities offered by other LNG terminals where Fluxys is active.

Memorandum of Understanding with Gazprom. Fluxys signed a framework agreement with Gazprom to cooperate on small-scale LNG on the European market. The agreement reflects the parties' intention to collaborate on joint projects for the construction and operation of LNG receiving terminals, LNG filling stations and LNG bunkering infrastructure in Europe.

Investing in innovative gas technology

Innovative gas technology, with its high energy efficiency and good emission values, has an important role to play in the transition to a low-carbon society. As such, Fluxys is supporting the accelerated development and market launch of innovative and attractive gas applications for heating, industry and mobility.

Against this backdrop, Fluxys invested in the company boostHEAT in 2016 to facilitate the industrial production of its thermodynamic boiler. This is an innovative technology of unmatched performance that uses thermal compression to exploit the complementarity between renewable energy and natural gas. It offers substantial savings for consumers by substantially reducing energy consumption while providing the same level of comfort and ease of maintenance as a conventional boiler.

3.4. Unlocking new sources

Commercial commissioning of the Dunkirk LNG Terminal

On 1 January 2017, commercial operations started at the Dunkirk LNG Terminal. The terminal adds 13 billion cubic metres per year to Europe's LNG import capacity. Thanks to the pipelines Fluxys Belgium and French transmission system operator GRTgaz laid between Dunkirk and the Zeebrugge area, terminal users have optimum flexibility in terms of where they can send the energy they import. From this terminal, they can supply natural gas not only to the French market but also to Belgium and, given the Belgian system's high interconnectivity, further downstream to other markets in Northwest Europe.

Fluxys is a 25% stakeholder in Dunkerque LNG, the owner of the Dunkirk LNG Terminal, and a 49% stakeholder in Gaz-Opale, the company operating the terminal.

Trans Adriatic Pipeline construction on schedule

Fluxys is a 19% stakeholder in the Trans Adriatic Pipeline (TAP), the pipeline under construction that forms the last link in the Southern Gas Corridor enabling Europe to access natural gas from the Shah Deniz field in Azerbaijan from 2020. In the first phase, the pipeline will be able to transmit up to 10 billion cubic metres of natural gas per year. This capacity can be increased at a later stage to 20 billion cubic metres per year with relatively little further investment. Various sources may be considered in that respect, including sources from the wider Caspian region, the Middle East and the eastern Mediterranean region.

By unlocking new sources, TAP will be an important link in both the diversification of natural gas sources and the security of supply in Europe. Against this backdrop, the European Union has given TAP Project of Common Interest (PCI) status as part of the *Trans-European Energy Infrastructure* (TEN-E).

The project is on track to supply the first natural gas from Shah Deniz in 2020. A number of important milestones were reached in 2016 and early 2017:

- all remaining supply and construction contracts for the laying of the pipeline were assigned;
- in Albania, roads and bridges were built or modified so that the pipeline could be laid, and the first kilometres of the pipeline were built;
- the first kilometres of the pipeline were also laid in Greece;
- in Italy, work started at the landfall location.

New sources or supply routes to replace low-calorific natural gas

The gradual depletion of the Dutch natural gas field in Groningen (which produces low-calorific natural gas, or L-gas) has prompted the Dutch government to completely phase out L-gas exports to Belgium and France between 2024 and 2030 and to Germany between 2020 and 2030. In the same timeframe, L-gas production in Germany will be almost completely exhausted. To replace the L-gas, new sources or routes for high-calorific natural gas (H-gas) need to be found, with Fluxys well placed to play a key role in this regard thanks to its activities in Europe.

Fluxys: key advantages for the German market. Germany currently consumes about 30 billion cubic metres of low-calorific natural gas per year. Fluxys can help to replace these volumes in a number of ways. Additional natural gas quantities can be supplied to Germany from the LNG terminals at Zeebrugge and Dunkirk and via the other landing points in Zeebrugge. The Belgian grid's role as a future gateway for L-gas replacement is also formally included in the German network development plan, as is the Zeelink project which consists in laying an additional pipeline to the Belgian/German interconnection point Eynatten.

Fluxys infrastructure also offers opportunities from the south. The reverse flow project will enable gas from the Southern Gas Corridor landing in Italy to be transmitted northwards to Germany. Furthermore, the potential future extension of the NEL pipeline in the north should also strengthen Germany's supply position.

Fluxys' Belgian grid well interconnected to replace L-gas. In Belgium, about 5 billion cubic metres of L-gas is imported for use on the domestic market. Thanks to good interconnections with neighbouring systems and access to a wide variety of sources, L-gas can be easily replaced.

Replacement flows to France via the Belgian system. The Belgian system also acts as a corridor for delivering some 5 billion cubic metres of L-gas to the French market. Again, Fluxys is well placed to ensure the necessary replacement flows.

Zeebrugge LNG Terminal: transshipment to other regional LNG markets

Fluxys is currently building a fifth LNG storage tank and additional processing facilities at the Zeebrugge LNG Terminal in the framework of the long-term contract concluded with Yamal Trade in 2015. From the LNG production terminal in Yamal in northern Siberia, ice breakers/LNG carriers will transport LNG to the Zeebrugge terminal and then take care of the transshipment to conventional LNG carriers, which will then transport it further to a range of destination markets in Asia and elsewhere.

These new services will further extend the versatility of the Zeebrugge LNG Terminal: for the LNG production terminal in Yamal, Zeebrugge is taking on a transshipment role to supply LNG to other regional LNG import markets. This expansion also makes the Zeebrugge LNG Terminal one of the largest in Europe with a throughput capacity of nearly 15 million tonnes of LNG per year.

3.5. Connecting markets

Reverse Flow Project

The TENP and Transitgas pipelines currently accommodate north to south flows from Belgium and the Netherlands through Germany and Switzerland to Italy. The reverse flow project will enable the TENP and Transitgas pipelines to become bidirectional so that by 2018 gas will also be able to flow from south to north.

The gas from Italy that will become available thanks to the reverse flow project includes not only gas from current North African, Russian and LNG sources. When the Trans Adriatic Pipeline is commissioned, the reverse flow project will also make it possible to flow natural gas transmitted to Italy via the Southern Gas Corridor further north to North European markets: in a first stage, this gas will come from Azerbaijan; at a later stage, it may also include gas from, for example, the wider Caspian region, the Middle East and the eastern Mediterranean region (see p. 31-32).

The project will also ensure that various gas trading points (NCG in Germany, PEG in France and PSV in Italy) can develop their full functionality so that a further convergence of prices on those various markets can take place.

By unlocking gas from the south and improving the coupling between the gas trading points, the reverse flow project is a key factor for security of supply, the diversification of sources and the further integration of the European gas market. For this reason, the project is included in the list of European Projects of Common Interest (*PCIs*) and receives European support under the Connecting Europe Facility programme.

The project requires investments to be made in the compressor stations at Ruswil (Switzerland) and Hügelheim (Germany) in order to change the flow direction. In Germany, a deodorisation facility will also be built near the German-Swiss border so that gas can also be imported to Germany even if it contains a given concentration of odorant (see p. 38).

NEL system users directly connected to the NCG market

In 2016, Fluxys built a connection between the NEL and NETRA (Norddeutsche Erdgas Transversale) pipelines in Germany. The connection provides an additional exit point on the NEL pipeline in Achim that also forms a new interconnection point between the NCG and Gaspool market areas. System users active in the NEL pipeline therefore gain direct access to the NCG market area and have a greater flexibility of destination for their gas. The new capacity was commissioned in February 2017.

3.6. Bolstering liquidity on gas trading platforms

Fluxys Belgium integrates hub services

Since 1 January 2016, Fluxys Belgium's customers can book both transmission capacity and hub services for buying or selling gas on Belgian trading points. To this end, the company took over the hub services of its sister company Huberator in late 2015, and the transfer on 1 January 2016 was accompanied by significantly lower prices for these services.

Belgian gas trading points remain successful

The traded volume on the Zeebrugge Trading Point (ZTP) was up more than 50%. To bolster the rise in liquidity at ZTP, so-called 'market maker agreements' were concluded, through which hub customers commit to trading a minimum volume of gas. There was a slight fall of 4% in traded volume on the Zeebrugge Beach - probably a result of the lower quantities of LNG delivered. Overall, the total traded volumes on Belgian gas trading points increased again year-on-year, rising from 936 to 967 TWh.

NCG also sees traded volumes increase

In 2016, more than 400 market players were active on the German gas trading point NCG (NetConnect Germany) and the traded volume rose by 9% from 1,964 TWh to 2,144 TWh.

Through our subsidiary Fluxys TENP, Fluxys has a 10% stake in the NCG market area operator. The market area stretches from the North Sea coast down to the Alps and is the largest German market area: about 2/3 of all domestic volumes in Germany are transmitted through the infrastructure of the 6 NCG partners (bayernets, Fluxys TENP, GRTgaz Deutschland, Open Grid Europe, terranets bw and Thyssengas).

4. Research and development

Fluxys Belgium's research and development policy aims to acquire the knowledge and technology which are necessary to strengthen and further develop the group's activities.

In the previous financial year, Fluxys was involved in research and development projects relating to the design and safe operation of natural gas pipelines and facilities, and in the area of geological and hydrodynamic models for underground natural gas storage. Since 2012, special attention has also been paid to innovative gas applications.

4.1. Deodorisation plant on the German-Swiss border

As part of the reverse flow project (see p. 34) Fluxys is set to build Europe's first industrial deodorisation plant on this scale in Germany. The plant will enable gas to be imported to Germany if it contains a given concentration of odorant. To fine-tune this technology, Fluxys built a pilot deodorisation plant in Krummhörn in northern Germany to examine how the deodorisation processes actually worked in practice with various configurations in terms of pressure, gas flow, temperature, odorant concentration and presence of foreign material. Based on the results, a concept and technical specifications were drawn up for the industrial plant to be built.

4.2. Power-to-gas

Power-to-gas is a technology for converting electricity into hydrogen or synthetic natural gas. By converting electricity into a different form of energy, power-to-gas is particularly valuable as a solution to the problem of electricity storage: for example, when wind turbines are running at full capacity while electricity demand is low, the surplus energy generated can be stored in the gas infrastructure under the form of hydrogen or synthetic natural gas.

In 2013, Fluxys joined forces with 10 other European companies (including natural gas and electricity system operators) in the *European Power to Gas Platform* to monitor the technology and exchange best practices. In Sweden, Swedegas is taking part in a preliminary study to explore the possibilities of developing power-to-gas in this country.

4.3. Injection of biomethane and hydrogen into gas grids

Blending biomethane or hydrogen with natural gas in grids is one way of reducing the carbon footprint of natural gas and supplying greener gas for heating, electricity generation, transport and industrial processes.

Biomethane is the gas that is left when the CO_2 is removed from biogas. Biogas is gas produced from green waste and, like natural gas, its main component is methane. Fluxys Belgium is involved in various working groups examining what quality requirements biomethane must meet before it can be injected into a gas network and what the resulting impact may be. Fluxys Belgium will use those research results as a reference in the biomethane injection projects that are currently under development in Belgium.

For some time now, the Swedish biogas market has been developed for quite some time with a view to meeting CO_2 emission reduction targets and shoring up Sweden's security of supply. With this in mind, the GoBiGas plant in Gothenburg has been connected to the Swedegas grid and the resulting blend of biogas and natural gas is being transmitted throughout the system.

As regards the injection of hydrogen into the natural gas system, Fluxys Belgium has finalised the HIPS (Hydrogen In Pipeline Systems) study as part of the European Gas Research Group (GERG). This study's results show that it is theoretically possible to blend large quantities of hydrogen with natural gas, but that it is important to bear in mind higher sensitivity to hydrogen for some applications.

4.4. International measurement standard for small-scale LNG

LNG is enjoying increasing success as an alternative fuel for trucks and ships. For such small-scale applications, LNG needs to be measured as accurately as other fuels. In order to do so, Fluxys Belgium and various metrology institutes and industrial partners form a project group to develop an international standard for measuring small to medium-sized LNG flow rates. A new LNG measurement and calibration facility has been built at the Maasvlakte in Rotterdam with a view to developing the international standard.

5. Outlook 2017

Given the expansion of the company's business activities and barring any unforeseen circumstances, Fluxys expects to pay out a dividend at the end of financial year 2017 that is at least equivalent to the recurring dividend for 2016 if OLO rates remain at the same level.

6. Principal risks, uncertainties and opportunities

6.1. Framework

Legal aspects. Fluxys is subject to Belgian legislation and accordingly has developed a corporate governance charter describing how the company works. Among others, the corporate governance charter contains internal organisation rules for the Audit Committee and the Appointment and Remuneration Committee, which is set up within the Board of Directors.

Code of Conduct. Furthermore, Fluxys has established a Code of Conduct, describing the principles of integrity, ethics and general conduct that are applicable to all Fluxys employees.

6.2. General implementation

Guideline. Fluxys has established a risk management system on the basis of the COSO framework. A guideline describes which risk management-related activities have to be performed when and by whom.

In each subsidiary a risk owner has been designated. On an annual basis, this risk owner has to inform the Fluxys risk manager about the status of the already identified risks, the ongoing action plans to further reduce risks to an acceptable level if necessary and about emerging risks. The impact of all risks is evaluated either in terms of safety, gas supply, impact on EBITDA or reputation (or a combination of these). Besides evaluating the impact, an assessment of the likelihood that the risk will materialise is also made. All risks are then plotted on a risk matrix combining the likelihood of occurrence and the impact.

Risks are grouped in three categories:

- Non-acceptable risks, i.e. risks with a high likelihood of occurring and a high impact; these risks must be mitigated to reduce either the likelihood or the impact, or both. For each of these risks, the business unit manager and/or risk owner examines the possibilities to mitigate these risks and an action plan is developed to reduce the risk.
- Medium risks, i.e. risks that require a close follow-up of actual measures in place to reduce the risks. Additional measures may be desired and should be considered on two dimensions: cost versus resulting reduction of likelihood or impact and technical feasibility. For these risks the ALARP (As Low As Reasonably Possible) applies.

- Low risks, i.e. risks with a low impact and/or likelihood. For these risks a close follow-up of actual measures in place is normally sufficient and no additional measures are required as the risk is acceptable. However, the principles of continuous improvement also apply for these risks.

In addition to the annual update of the risk register, risk information as well as information on action plans to reduce risks are shared with the Internal Audit Department, allowing the department to follow up on the effectiveness and efficiency of the mitigating actions. Furthermore, on a quarterly basis, all subsidiaries have to report on any ongoing or new legal proceedings with an estimation of the impact and likely outcome, to enable the necessary actions and provisions to be undertaken.

Reporting to the Audit Committee. Every year the Audit Committee is informed about the risk management method and the most important risks as well as the mitigating measures.

6.3. Overview of the major risk areas

Market risk. The current market situation affects both transmission and storage of natural gas, and this is having an impact on the amount of capacity actually reserved. In this context, Fluxys and its subsidiaries are working hard to make their services even more attractive and to keep their tariffs as competitive as possible.

Due to the stagnant economic climate in Europe, the tendency to decarbonise the energy mix in favour of among others renewable energy sources is resulting in a declining demand for natural gas. For this reason, Fluxys is carefully considering where to invest in new infrastructure.

While the number of long-term contracts is reducing, the number of short-term transmission contracts is on the rise. This trend is making it increasingly difficult to decide on investments. By monitoring the market closely and by organising targeted marketing campaigns and offering competitive tariffs, Fluxys is reducing the associated risks as much as possible. Whenever possible Fluxys is also pro-actively taking actions to safeguard its future position in the market. For example, Fluxys actively promotes its assets in the scope of new natural gas flows that will substitute the declining European production.

Today, natural gas-fired power plants are priced out of the market: a high penetration of renewable energy in combination with low coal prices and low CO_2 emission prices, result in low utilisation rate for gas-fired power plants throughout Europe. The UK is an exception to the rule as the country introduced a carbon price floor. The inactivity of the power plants also has a major impact on capacity bookings for power plants. The uncertainty surrounding these bookings will remain something to keep into account in the future: it is unclear how the CO_2 emission price will evolve and, on top of that, a number of countries exacerbate this uncertainty with their lack of clarity on the timing of a nuclear phase-out.

The end of Dutch L-gas by 2030, and the declining export as of 2024, may lead to the end of L-gas transit flows through Belgium which may not be compensated by new H-gas transit flows. Furthermore, the gradual disappearance of L-gas and subsequent conversion to H-gas represents a potential risk for loss of market share as L-gas users can opt for energy sources other than natural gas.

Integrity of the grid and the ICT infrastructure. Operating natural gas infrastructure entails inherent safety risks, such as damage to the grid and the facilities as a result of third-party works, damage as a result of corrosion or incidents during maintenance works. In Belgium, Germany and Switzerland, Fluxys takes various measures to ensure the safe and continuous operation of infrastructure and manage the associated risks. One specific risk for operational activities is ICT security (availability and cyber security). With this in mind, Fluxys is taking the appropriate precautions to keep its ICT and Industrial Control (IC) systems in optimal condition and protect them from outside threats.

Regulatory framework. The Fluxys Group operates in an ever more tightly regulated environment. For the border-to-border transmission activity, which is heavily subject to competition, the European regulatory framework not only brings along a shift towards a short-term market, but also strongly reduces commercial flexibility and the possibility to introduce innovative services that respond to market needs. This development reflects the growing risk of the European regulatory framework ending up engaging in overregulation and achieving the opposite effect to what is intended: although the aim is to create a framework for market-based competition, the framework tends to replace market-based principles with a central planning model.

In Belgium, Fluxys Belgium and Fluxys LNG are subject to the Gas Act of 12 April 1965 concerning the transmission of gaseous and other products by pipeline, as subsequently amended. Natural gas transmission, natural gas storage and LNG terminalling activities are regulated in Belgium. Subsidiaries in the rest of the European Union are subject to the regulatory framework of their respective host countries.

The regulatory framework for activities in Belgium and the rest of the EU is heavily governed by European law (especially Directive 2009/73/EC concerning common rules for the internal market in natural gas, and Regulation (EC) No. 715/2009 on conditions for access to natural gas transmission networks), which Fluxys duly takes into account. As a result, any change in the regulatory framework applicable to the Fluxys Group can have an impact on its activities, financial position and results.

In general, National Regulatory Authorities across Europe include government bond interest rates in their tariff methodologies as a factor influencing regulated return. As these rates have been deteriorating for a couple of years, this trend translates into lower regulated returns.

In Switzerland, FluxSwiss may be affected by schemes being considered by the Italian Ministry of Economic Development (MISE), which would force FluxSwiss' biggest customer to sell its unused capacity on the Swiss north/south axis via a regulated entity on the secondary market. All this may have a negative impact on FluxSwiss' revenue.

The Interconnector pipeline connecting the UK to continental Europe plays a key role in the security of supply and convergence of gas prices in Northwestern Europe. Once the initial long-term contracts for the Interconnector pipeline expire in October 2018, its capacity to continue supplying its services to the market will depend on a suitable trading and regulatory framework that takes into account the specific nature of such interconnections: unlike other transmission system operators, these pipelines do not have a captive market and are not on a level playing field with other providers of flexibility such as LNG terminals. It is not currently clear what arrangements will be made to regulate gas trade between the UK and continental Europe following Brexit. The procedure and negotiations for the UK's exit have begun in early 2017. Fluxys and Interconnector UK are monitoring the negotiation process closely to determine the best way to limit the risk that the Interconnector will be hindered by a regulatory context with insufficient commercial flexibility.

In 2016, the German regulator BnetzA set up a horizontal compensation mechanism between transmission system operators, which is expected to be launched on 1 January 2018. This mechanism significantly affects the tariffs set by German transmission system operators. Once the system is in effect, all transmission system operators in the same market area will have to apply standard entry tariffs. This will lead to compensation payments between transmission system operators and will have an indirect effect on exit tariffs.

- The horizontal compensation mechanism between transmission system operators carries the risk that ex-ante compensation payments to other system operators, which are calculated based on capacity sales forecasts, would not be sufficiently covered by the quantities actually sold and that such discrepancies could only be compensated in subsequent financial years. The extent of this cash-flow risk cannot currently be quantified.
- At the same time, the mechanism could also mitigate the cash-flow risk when certain contracts expire. However, it is difficult at the moment to quantify the potential mitigating effect because of a lack of experience with the calculation process and the procedure of both other transmission system operators and BNetzA.

Growth in activity. In a bid to safeguard its future growth and profitability on a European gas market undergoing fast changes, Fluxys' unique position in terms of location, competencies and know-how enables it to seize opportunities to invest in new and existing natural gas transmission networks, pipelines or LNG terminalling projects. This will enable Fluxys to further consolidate its position on the major gas transit axes. Implementing such projects could give rise to various risks and uncertainties, such as differences in corporate culture, services, regulation, markets, operational and technical risks, timely commissioning and budget overruns. Therefore, Fluxys conducts an in-depth risk analysis for every project and monitors it closely. Moreover, the investments are backed by long-term contracts.

Exchange risk. Some of the Fluxys Group's current cash flows are generated in currencies other than the euro, primarily in CHF, GBP and SEK. Since the euro is the Fluxys Group's functional currency, a fluctuation in the exchange rate between the euro and the cash flows in foreign currencies could affect Fluxys' income statement and consolidated balance sheet when these currencies are converted into euro. However, in line with the group’s financial policy, foreign currency exposures are hedged as soon as they become certain by financial instruments such as foreign exchange swaps, forwards and cross-currency rate swaps. As far as possible, these financial instruments are qualified as hedging instruments, so that the accounting impact of exchange-rate variations on the income statement is limited.

Interest risk. Some of the Fluxys Group's current loans were taken out at floating interest rates. A fluctuation in interest rates could affect Fluxys' income statement. However, in line with the group's financial policy, these risks are hedged as much as possible by financial instruments such as interest rate swaps (IRS). In recent finance contracts, the interest to be paid at floating rates under the loan agreement was limited to 0% (in some cases, this limit only relates to the benchmark interest rate, in other cases to the all-in interest rate, plus margin). When this documentary derivative instrument is hedged by an IRS that does not reflect this bottom limit, there may be further interest rate risks (which is the case in Switzerland for the financing of FluxSwiss and Transitgas, and in Sweden for the financing of Knubbsäl). These floor exposures are closely monitored. Against this backdrop, the loans of FluxSwiss and Transitgas were refinanced in February 2017. These loans were the ones most exposed to the insufficient hedging. The companies took the occasion to replace the IRS hedgings with CAP type instruments, which completely lifted the exposure to the risk of floating interest rates for these two loans.

Counterparty risk. Cash surpluses belonging to the Fluxys Group subsidiaries are deposited with Fluxys Finance under cash pooling agreements (except for Flux Re, project financed subsidiaries and subsidiaries where Fluxys does not own a majority stake in the share capital). This cash surplus is lent to group subsidiaries through intra-group loans. The monitoring performed by Fluxys on its subsidiaries makes this counterparty risk on subsidiaries limited and under control. Residual cash surplus within the group is invested in financial products. In terms of Fluxys Finance, the risk of counterparties defaulting is very small, since Fluxys Finance invests the cash surplus with prominent financial institutions, in financial instruments issued by companies with an investment grade rating or in financial instruments issued by companies which a creditworthy public majority shareholder.

As per its policy for managing counterparty risk, Fluxys performs a credit analysis of its customer base in terms of profitability, liquidity and solvency based on internal information as well as specialised databases with financial information and market research. This analysis is supplemented with external credit rating information when available. Through this approach, the group’s exposure to credit risk both in terms of default and in terms of concentration of customers is reduced. Major suppliers are also screened in order to safeguard the long-term prospects of the collaboration.

Liquidity risk. The Fluxys Group runs a capital-intensive business and as such relies on external financing (among other things) to fund its operational and investment activities. In the scope of its business development and refinancing obligations, the group is subject to a liquidity risk. Debt capital markets do not always offer sufficient access to the required liquidities, especially in times of distressed economic and geo-political circumstances. Fluxys' policy is to retain its privileged access to capital through the implementation of adequate and confirmed credit lines, a strong network of banks and investors, and the solid financial parameters for the company's creditworthiness that make Fluxys a reliable counterparty for banks.

7. Corporate governance

7.1. Composition of the Board of Directors

On 10 May 2016 the Annual General Meeting decided – upon the proposal of the Board of Directors and the advice of the Appointment and Remuneration Committee – to appoint Jos Ansoms as a director, replacing Patrick Moenaert. His directorship will expire following the Annual General Meeting in 2022.

7.2. Management Team

On 1 January 2016, Pascal De Buck was appointed Managing Director and Chief Executive Officer, succeeding Walter Peeraer. His appointment was confirmed by the Annual General Meeting on 10 May 2016.

7.3. Attendance Fee

Directors receive an attendance fee of € 250 for each Board and committee meeting they attend.

II. CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS

1. General information on the company

Corporate name and registered office. The registered office of the parent entity Fluxys SA is Avenue des Arts 31, B – 1040 Brussels, Belgium.

Group activities. The Fluxys Group's activities are essentially split into two main clusters.

The first focuses on the transmission and storage of natural gas as well as terminalling services for liquefied natural gas (LNG) in Belgium. In addition to these activities which fall under the Gas Act[1], the Fluxys Group also carries out complementary services related to the activities described above.

The second essentially covers activities outside Belgium.

Please refer to the specific chapters in the directors' report for further information on the activities of the Fluxys Group.

[1] Act of 12 April 1965 concerning the transmission of gaseous and other products by pipelines as later amended.

2. Consolidated financial statements of the Fluxys Group under IFRS

2.1. Consolidated balance sheet

Consolidated balance sheet			In thousands of €
	Notes	31-12-2016	31-12-2015
I. Non-current assets		**5,977,945**	**6,218,466**
Property, plant and equipment	5.1	4,315,600	4,551,379
Intangible assets	5.2	739,340	893,485
Goodwill	5.3	1,924	1,924
Investments in associates and joint ventures	5.4	500,188	439,717
Other financial assets	5.5/6	62,410	24,658
Loans and receivables	5.6/6	332,377	273,606
Other non-current assets	5.6	26,106	33,697
II. Current assets		**607,049**	**598,463**
Inventories	5.7	24,086	29,236
Other current financial assets	6	6,144	927
Current tax receivable		2,213	2,788
Trade and other receivables	5.8/6	167,746	132,797
Cash investments	5.9/6	105,348	121,937
Cash and cash equivalents	5.9/6	280,084	291,920
Other current assets	5.10	21,428	18,858
Total assets		**6,584,994**	**6,816,929**

Consolidated balance sheet			In thousands of €
	Notes	31-12-2016	31-12-2015
I. Equity	5.11	**2,403,901**	**2,568,147**
Equity attributable to the parent company's shareholders		1,805,657	1,891,576
Share capital and share premiums		*1,782,472*	*1,779,791*
Retained earnings and other reserves		*17,501*	*81,670*
Translation adjustments		*5,684*	*30,115*
Non-controlling interests		598,244	676,571
II. Non-current liabilities		**3,405,634**	**3,764,563**
Interest-bearing liabilities	5.12/6	2,603,921	2,840,298
Provisions	5.13.2	18,879	25,581
Provisions for employee benefits	5.14	66,811	63,188
Other non-current financial liabilities	6	27,688	42,746
Deferred tax liabilities	5.15	688,335	792,750
III. Current liabilities		**775,459**	**484,219**
Interest-bearing liabilities	5.12/6	573,267	293,524
Provisions	5.13.2	6,841	6,503
Provisions for employee benefits	5.14	4,612	3,621
Other current financial liabilities	6	542	3,682
Current tax payables		38,527	37,242
Trade and other payables	5.16/6	132,622	116,327
Other current liabilities		19,048	23,320
Total liabilities and equity		**6,584,994**	**6,816,929**

2.2. Consolidated income statement

Consolidated income statement			In thousands of €
	Notes	31-12-2016	31-12-2015
Operating revenue	4.1	1,027,448	872,876
Sales of gas related to balancing operations and operational needs		49,093	62,107
Other operating income	4.2	13,603	15,301
Consumables, merchandise and supplies used	4.3.1	-3,837	-3,920
Purchase of gas related to balancing of operations and operational needs		-54,333	-73,419
Miscellaneous goods and services	4.3.2	-213,789	-169,092
Employee expenses	4.3.3	-134,248	-132,463
Other operating expenses	4.3.4	-11,119	-22,743
Net depreciation	4.3.5	-424,435	-272,275
Net provisions	4.3.5	5,882	1,033
Impairment losses	4.3.5	2,009	-537
Profit/loss from continuing operations		**256,274**	**276,868**
Earnings from associates and joint ventures	4.6	-4,711	18,636
Profit/loss before financial result and tax		**251,563**	**295,504**
Change in the fair value of financial instruments	4.5.4	14,324	-15,497
Financial income	4.4	18,488	44,693
Finance costs	4.5	-127,704	-119,447
Profit/loss from continuing operations after net financial result		**156,671**	**205,253**
Income tax expenses	4.7	-38,387	-51,593
Net profit/loss for the period	4.8	**118,284**	**153,660**
Fluxys share		76,928	121,189
Non-controlling interests		41,356	32,471

2.3. Consolidated statement of comprehensive income

Consolidated statement of comprehensive income			In thousands of €
	Notes	31-12-2016	31-12-2015
Net profit/loss for the period	4.8	**118,284**	**153,660**
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of employee benefits	5.13.1	-10,169	12,811
Income tax expense on these variances		3,370	-4,681
Other comprehensive income from investments in associates - Remeasurements of employee benefits		74	-421
Items that may be reclassified subsequently to profit or loss			
Net investments in foreign operations – Translation[2] adjustments		-65,972	42,430
Net investments in foreign operations – Hedging instruments	6	3,557	-12,075
Cash flow hedges	6	5,142	674
Income tax expense on other comprehensive income		-2,397	2,847
Other comprehensive income from investments in associates – Cash flow hedges		-4,981	710
Other comprehensive income		**-71,376**	**42,295**
Comprehensive income for the period		**46,908**	**195,955**
Fluxys share		46,243	139,702
Non-controlling interests		665	56,253

[2] Decrease compared to 2015, due to the decrease of the currency GBP

2.4. Consolidated statement of changes in equity

Consolidated statement of changes in equity

	Share capital	Share premium	Retained earnings	Cash flow hedge
I. OPENING BALANCE as at 31-12-2014	**1,698,596**	**80,876**	**109,291**	**-10,185**
1. Comprehensive income for the period	0	0	121,189	224
2. Dividends paid	0	0	-125,679	0
3. Changes in the consolidation scope	0	0	0	0
4. Capital increases/decreases	319	0	0	0
5. Other changes	0	0	-2,178	0
II. CLOSING BALANCE AS AT 31-12-2015	**1,698,915**	**80,876**	**102,623**	**-9,961**
1. Comprehensive income for the period	0	0	76,928	-3,015
2. Dividends paid	0	0	-132,052	0
3. Changes in the consolidation scope	0	0	-2,791	0
4. Capital increases/decreases	2,426	255	0	0
5. Other changes	0	0	0	0
III. CLOSING BALANCE AS AT 31-12-2016	**1,701,341**	**81,131**	**44,708**	**-12,976**

					In thousands of €
Net investments in foreign operations	Reserves for employee benefits	Translation adjustments	Equity attributable to the parent company's shareholders	Non-controlling interests	Total equity
-2,411	**-7,026**	**10,271**	**1,879,412**	**310,756**	**2,190,168**
-9,170	7,615	19,844	139,702	56,253	195,955
0	0	0	-125,679	-27,617	-153,296
0	0	0	0	338,153	338,153
0	0	0	319	-974	-655
0	0	0	-2,178	0	-2,178
-11,581	**589**	**30,115**	**1,891,576**	**676,571**	**2,568,147**
2,645	-5,884	-24,431	46,243	665	46,908
0	0	0	-132,052	-75,921	-207,973
0	0	0	-2,791	-3,065	-5,856
0	0	0	2,681	-6	2,675
0	0	0	0	0	0
-8,936	**-5,295**	**5,684**	**1,805,657**	**598,244**	**2,403,901**

2.5. Consolidated statement of cash flows (indirect method)

Consolidated statement of cash flows (indirect method)	In thousands of €	
	31-12-2016	31-12-2015
I. Cash and cash equivalents, opening balance	**291,920**	**232,881**
II. Net cash flows from operating activities	**560,598**	**422,193**
1. Cash flows from operating activities	**680,099**	**466,269**
1.1. Profit/loss from continuing operations	**256,274**	**276,868**
1.2. Non cash adjustments	**454,555**	**215,787**
1.2.1. Depreciation	424,435	272,275
1.2.2. Provisions	-5,882	-1,033
1.2.3. Impairment losses	-2,009	537
1.2.4. Translation adjustments	37,915	-65,453
1.2.5. Non cash adjustments	96	9,461
1.3. Changes in working capital	**-30,730**	**-26,386**
1.3.1. Inventories	5,150	3,512
1.3.2. Tax receivables	575	11,726
1.3.3. Trade and other receivables	-34,949	2,136
1.3.4. Other current assets	-3,124	-167
1.3.5. Tax payables	575	-23,485
1.3.6. Trade and other payables	3,306	-6,645
1.3.7. Other current liabilities	-4,272	-5,334
1.3.8. Other changes in working capital	2,009	-8,129
2. Cash flows relating to other operating activities	**-119,501**	**-44,076**
2.1. Current tax paid	-116,903	-88,300
2.2. Interests from investments, cash and cash equivalents	9,360	4,989
2.3. Inflows related to associates and joint ventures (dividends received)	9,444	33,394
2.4. Other inflows (outflows) relating to other operating activities	-21,402	5,841

Consolidated statement of cash flows (indirect method)	In thousands of €	
	31-12-2016	31-12-2015
III. Net cash flows relating to investment activities	**-337,164**	**-413,205**
1. Acquisitions	**-357,329**	**-440,721**
1.1. Payments to acquire property, plant and equipment, and intangible assets	-144,301	-230,455
1.2. Payments to acquire subsidiaries, joint arrangements or associates	-177,131	-204,758
1.3. Payments to acquire other financial assets	-35,897	-5,508
2. Disposals	**20,156**	**7,408**
2.1. Proceeds from disposal of property, plant and equipment, and intangible assets	2,287	7,372
2.2. Proceeds from disposal of subsidiaries, joint arrangements or associates	0	0
2.3. Proceeds from disposal of other financial assets	17,869	36
3. Dividends received classified as investment activities	**9**	**8**
4. Subsidies received	**0**	**20,100**
5. Other cash flows relating to investment activities	**0**	**0**
IV. Net cash flows relating to financing activities	**-229,215**	**36,066**
1. Proceeds from cash flows from financing	**261,232**	**408,032**
1.1. Proceeds from issuance of equity instruments	2,681	319
1.2. Proceeds from issuance of treasury shares	0	0
1.3. Proceeds from finance leases	0	3,334
1.4. Proceeds from other non-current assets	15,422	9,431
1.5. Proceeds from issuance of compound financial instruments	0	0
1.6. Proceeds from issuance of other financial liabilities	243,129	394,948
2. Repayments relating to cash flows from financing	**-197,517**	**-492,270**
2.1. Repurchase of equity instruments subsequently cancelled	0	0
2.2. Purchase of treasury shares	0	0
2.3. Repayment of finance lease liabilities	-9,264	-47
2.4. Redemption of compound financial instruments	0	0
2.5. Repayment of other financial liabilities	-188,253	-492,223

Consolidated statement of cash flows (indirect method)	In thousands of €	
	31-12-2016	31-12-2015
3. Interests	**-100,969**	**-104,380**
3.1. Interest paid classified as financing	-100,969	-104,517
3.2. Interest received classified as financing	0	137
4. Dividends paid	**-207,979**	**-156,448**
5. Increase (-) / Decrease (+) of investments	**16,018**	**381,132**
6. Bank overdrafts increased (decreased)	**0**	**0**
7. Other cash flows relating to financing activities	**0**	**0**
V. Net change in cash and cash equivalents	**-5,781**	**45,054**
Translation adjustments in cash and cash equivalents	-6,055	13,985
VI. Cash and cash equivalents, closing balance	**280,084**	**291,920**

3. Notes

Note 1a. Shareholder structure and capital increases

As at 31 December 2016, Fluxys’ shareholder structure was as follows:

- 77.62%: Publigas
- 19.94%: Caisse de dépôt et placement du Québec
- 2.13%: SFPI
- 0.31%: employees and management

In 2016, Fluxys proceeded to a capital increase for the group’s employees and management of a total of €2.7m.

Note 1b. Statement of compliance with IFRS

The consolidated financial statements of the Fluxys Group have been prepared in accordance with the International Financial Reporting Standards, as approved by the European Union. All amounts are stated in thousands of euro.

Note 1c. Judgement and use of estimates

The preparation of financial statements requires the use of estimates and assumptions to determine the value of assets and liabilities, to assess the positive and negative consequences of unforeseen situations and events at the balance sheet date, and to form a judgement as to the revenues and expenses of the financial year.

Significant estimates made by the group in the preparation of the financial statements relate mainly to the fair value of acquired assets and assumed liabilities, (see Note 3), the valuation of the recoverable amount of property, plant and equipment and intangible assets, (see Notes 5.1 and 5.2), and the valuation of provisions, in particular for litigation (see Notes 5.13 and 7) and for pension and related liabilities (see Note 5.14).

If the use of certain assets is closely linked to market demand, the group uses a depreciation method based on the expected use of the assets concerned.

Future economic benefits which these assets represent are mainly consumed by the group as a result of their use. A change in market demand could lead to a prospective review of the depreciation method on certain assets. A decision to proceed to a review of the depreciation method will be based on the group's past experience for similar assets.

The criteria used for the classification of joint arrangements are included in the accounting policies (see Note 2.4) and Note 3.2.

Due to the uncertainties inherent in all valuation processes, the group revises its estimates on the basis of regularly updated information. Future results may differ from these estimates.

Beside the use of estimates, group management also uses judgement in defining the accounting treatment for certain operations and transactions not addressed under the IFRS standards and interpretations currently in force[3].

Note 1d. Date of authorisation for issue

The Board of Directors of Fluxys SA authorised these IFRS financial statements for issue on 29 March 2017.

Note 1e. Changes or additions to the accounting principles and policies

The details provided in 2016 as regards the accounting methods and principles are underlined. They have no impact on the results for the financial year.

[3] See Note 2.20 for the accounting of regulated income for example.

Note 1f. Adoption of new accounting principles or revised IFRS standards

The following standards and interpretations are applicable as of 1 January 2016:

- IFRS improvements (2010-2012) (effective for annual periods beginning on or after 1 February 2015)
- IFRS improvements (2012-2014) (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 1 - Presentation of Financial Statements – Disclosure initiative (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 and IAS 38 - Property, Plant and Equipment and Intangible Assets -Clarification of Acceptable Methods of Depreciation (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 19 - Employee Benefits - Employee Contributions (effective for annual periods beginning on or after 1 February 2015)
- Amendments to IFRS 11 – Joint Arrangements - Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

The standards applicable since 2016 have had no material impact on the group's financial statements.

At the date of authorisation of these financial statements, the standards and interpretations listed below have been issued but are not yet mandatory:

- IFRS 9 – Financial Instruments and consequential amendments (effective for annual periods beginning on or after 1 January 2018)
- IFRS 15 – Operating revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)
- IFRS 16 - Leases (effective for annual periods beginning on or after 1 January 2019 but not yet adopted at European level)
- Amendments to IAS 7 – Statement of Cash Flows – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017, but not yet adopted at European level)
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (date of entry into force postponed indefinitely, as a result of which adoption at European level has also been postponed)
- Amendments to IAS 12 – Income Taxes – Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017 but not yet adopted at European level)

- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018 but not yet adopted at European level)
- Improvements to IFRS (2014-2016) (effective for annual periods beginning on or after 1 January 2017 or 2018 but not yet adopted at European level)

The ongoing review of the application of IFRS 9, 15 and 16 to the group's financial statements reveals, at the current stage of analysis, the following effects:

- Certain transmission or LNG terminal installations are built on sites for which the group has long-term concessions. These site concession contracts will be booked in the same way as finance lease contracts under IAS 17 (see Note 7.5).
- Certain building and vehicle leases will also be booked in the same way as finance lease contracts under IAS 17 (see Note 4.3.2).
- The assessment of credit risk under IFRS 9 relating to counterparty default should not have a significant impact on the group's financial statements, the majority of its activities being regulated.
- The other expected effects of the application of these standards mainly concern the information to be provided in the notes in annex.

Note 2. Accounting principles and policies

The accounting principles and policies were approved at the Fluxys Board of Directors meeting of 29 March 2017.

Changes or additions compared with the previous financial year are underlined.

2.1. General principles

The financial statements fairly present the Fluxys Group's financial position, results of operations and cash flows.

The group's financial statements have been prepared on the accrual basis of accounting, except for the cash flow statement.

Assets and liabilities have not been offset against each other, except when required or allowed by an international accounting standard.
Current and non-current assets and liabilities have been presented separately in the balance sheet of the Fluxys Group.

The accounting policies have been applied in a consistent manner.

2.2. Balance sheet date

The consolidated financial statements are prepared as of 31 December, i.e. the parent entity's balance sheet date.

When the financial statements of a subsidiary, a joint operation, a joint venture or an associate are not prepared as of 31 December, interim financial statements are prepared as at 31 December for consolidation purposes.

2.3. Events after the balance sheet date

The book value of assets and liabilities at the balance sheet date is adjusted when events after the balance sheet date provide evidence of conditions that existed at the balance sheet date.

Adjustments can be made until the date of authorisation for issue of the financial statements by the Board of Directors.

Other events relating to circumstances arising after balance sheet date are disclosed in the notes to the consolidated financial statements, if significant.

2.4. Basis of consolidation

The Fluxys Group's consolidated financial statements have been prepared in accordance with IFRS and in particular with IFRS 3 (Business Combinations), IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements) and IAS 28 (Investments in Associates and Joint Ventures).

Subsidiaries

The Fluxys Group's consolidated financial statements include the financial statements of the parent entity and the financial statements of the entities it controls and its subsidiaries.

The investor controls an investee when it is exposed—or has rights—to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The investor has power over the investee when it holds existing rights that give the current ability to direct the relevant activities, i.e. the activities of the investee that significantly affect the investee's returns, even if it does not hold the majority of the voting rights in the investee concerned.

The parent entity must consolidate the subsidiary as of the date it obtains the control over it, and must cease to consolidate when it loses control over it. In this way revenues and charges of a subsidiary acquired or transferred in the course of the financial year are included in the consolidated income statement and in the consolidated statement of comprehensive income as of the date on which the parent entity acquired the control over the subsidiary and up to the date on which it ceased to control the latter.

Joint operations

A joint operation is a partnership in which the parties which exercise joint control over the company have rights to the assets and obligations for liabilities relating thereto. Joint control means contractually agreed sharing of the control exercised over an undertaking, which only exists in the cases where the decisions on the relevant activities require the unanimous consent of the parties sharing the control.

When a group entity carries out its activities in the framework of a joint operation, the group, as a co-participant, must account for the assets, liabilities, revenues and charges relating to its interests in the joint operation in accordance with the IFRS which apply to these assets, liabilities, revenues and charges.

Investments in associates and joint ventures

An associate is an entity in which the group has a significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity, without exercising control or joint control over these policies.

A joint venture is a joint arrangement in which the parties exercising joint control over the undertaking have rights to the net assets of the undertaking. Joint control means contractually agreed sharing of the control exercised over an undertaking, which only exists in the cases where the decisions on the relevant activities require the unanimous consent of the parties sharing the control.

The results, assets and liabilities of associates or joint ventures are accounted for in the present consolidated financial statements in accordance with the equity method, unless the investment, or a part thereof, is classified as an asset held for sale in accordance with IFRS 5.

An investment in an associate or joint venture is initially accounted for at cost. It then integrates the share of the group in the net results and the other elements of the comprehensive result of the undertaking accounted for under the equity method. Finally dividends distributed by this entity decrease the value of the investment.

An associate is not accounted for under the equity method if its impact on the financial statements is immaterial.

2.5. Business combinations

The group accounts for all business combinations using the acquisition method. This method is also used for business combinations under joint control in the event that the method is in line with the substance of the transaction and helps to give a true and fair view of the financial position.

The acquirer measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

The costs connected to the acquisition are accounted for in the results when they are made.

Goodwill represents the surplus, at the acquisition date, of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the investment previously held by the acquirer in the acquiree over the net fair value of identifiable assets acquired and liabilities assumed.

If after revaluation, the net fair value at the acquisition date of identifiable assets acquired and liabilities assumed is higher than the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the investment previously held by the acquirer in the acquiree, the surplus will be accounted for immediately in the results of the period.

Goodwill is recognised as an asset. For the purpose of impairment tests, goodwill is allocated to the Group's cash-generating units expected to benefit from the synergies of the combination. An impairment test is carried out each year, even when there is no indication that goodwill may have been impaired, or more frequently if events or changes in circumstances indicate that goodwill may have been impaired (IAS 36 – Impairment of assets).

In case of a business combination realised in stages, the group reassesses the participation it previously held in the acquired company at the acquisition-date fair value and accounts for any gain or loss in the net results.

Changes in participations in subsidiaries of the group which do not result in a loss of control are recognised as equity transactions.

When the group loses control of a subsidiary, a gain or loss is accounted for in the net results and is calculated as the difference between:

- the total fair value of the consideration received and the fair value of any retained participation and
- the previous book value of the subsidiary's assets (including goodwill) and liabilities.

All amounts previously recognised in other items of comprehensive income relating to the subsidiary are recognised as if the group had directly disposed of the related subsidiary's assets or liabilities. They are reclassified to net results or transferred to another category of equity in accordance with applicable IFRS.

The fair value of any participation retained in the former subsidiary at the date of loss of control must be regarded as the fair value on initial recognition for subsequent recognition under IAS 39 or, where applicable, as the cost on initial recognition of an investment in an associate or joint venture.

2.6. Translation of foreign entities' financial statements

For consolidation purposes, the assets and liabilities of the group's foreign operations are translated into euro using the closing rate and the income and expenses are translated using the average exchange rate for the period unless the exchange rate has fluctuated considerably.

The group's share of the resulting exchange differences is reported as translation adjustment in the equity section of the balance sheet, whereas the non-controlling interests' share in those differences is reported as 'non-controlling interests' in equity.

2.7. Intangible assets

An intangible asset is recognised as an asset if it is probable that future economic benefits attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably.

Intangible assets are recognised at cost in the balance sheet (cost method), less any accumulated depreciation and any accumulated impairment losses.

Intangible assets with a limited useful life are depreciated over their useful life.

The main depreciation periods are as follows:
- 40 years for the fixed asset 'sole operator of the natural gas transmission network and storage facilities' in Belgium;
- 20 to 40 years for the customer portfolios;
- 20 years for the fixed asset 'sole operator of the LNG facilities';
- 5 years for computer software.

Intangible assets 'customer portfolios' may be depreciated under a diminishing balance method which reflects more closely the way that the Group expects to consume the future economic benefits associated with these assets.

Subsequent expenditure is capitalised if it generates economic benefits exceeding the initial standard of performance.

Intangible assets are reviewed at each balance sheet date to identify indications of potential impairment that may have arisen during the financial year. In case such indications are noted, an estimate of the recoverable amount of the related intangible assets is made. The recoverable amount is defined as the higher of the fair value less costs to sell of an asset and its value in use.

The value in use is calculated by discounting future cash inflows and outflows generated by the continuous use of the asset and its final disposal at an appropriate discounting rate.

Intangible assets are impaired when their book value exceeds the amount that can be recovered, as a result of obsolescence of these assets or due to economic or technological circumstances.

Intangible assets with an indefinite useful life are subject to an annual impairment test, and an impairment loss is recognised when their book value exceeds their recoverable amount.

The useful life, the depreciation method, as well as the potential residual value of intangible assets are reassessed at each balance sheet date and revised prospectively, if applicable.

Emission rights for greenhouse gases

Emission rights for greenhouse gases acquired at fair value are recognised as intangible assets at their acquisition cost. Rights granted free of charge are recognised as intangible assets at a nil book value.

The emission of greenhouse gases in the atmosphere is recognised as an operating expense, the counterpart being a liability for the obligation to deliver allowances covering the effective emission over the period concerned (other debts).

This expense is measured by reference to the weighted average cost of the acquired or granted allowances.

This liability is derecognised on the delivery of allowances to the government by withdrawing emission rights from intangible assets.

In case the allowances are insufficient to cover the emission of greenhouse gases during the financial year, the group accounts for a provision. This provision is measured by reference to the market value at the balance sheet date of the allowances yet to be purchased.

The excess emission rights not sold on the market are valued at the balance sheet date by reference to the weighted average cost of the acquired or granted allowances, or at market value if lower than the weighted average cost.

2.8. Property, plant and equipment

Property, plant and equipment (PPE) is recognised as an asset if it is probable that future economic benefits attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably.

PPE is recognised at cost in the balance sheet (cost method), less any accumulated depreciation and any accumulated impairment losses.

Subsequent expenditure is capitalised if it generates economic benefits exceeding the initial standard of performance.

PPE is reviewed at each balance sheet date to identify indications of potential impairment that may have arisen during the financial year. In the event that such indications are noted, an estimate of the recoverable amount of the related PPE is made. The recoverable amount is defined as the higher of the fair value less costs to sell of an asset and its value in use.

The value in use is calculated by discounting future cash inflows and outflows generated by the continuous use of the asset and its final disposal at an appropriate discounting rate.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards included in the ownership of an asset to the lessee. Assets held under these contracts are recognised at the lower of their fair value and the present value of the minimum lease payments under the lease contracts. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance costs and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability for each period.

Capital subsidies and tax deductions for investment

Subsidies related to property, plant and equipment as well as contributions by third parties in the funding of such assets are deducted from the acquisition cost of these assets.

The tax benefit arising from the deductions for investment reduces the gross value of the related assets, the counterpart being deferred taxes.

Depreciation methods

PPE is depreciated over its useful life.

Each significant component of PPE is recognised separately and depreciated over its useful life.

The depreciation method reflects the rate at which the group expects to consume the future economic benefits related to the asset, taking into account the time during which the assets may generate regulated revenue.

The regulated investments intended to increase the security of supply in Europe are depreciated under a diminishing balance method, which more accurately reflects the rate at which the group expects to consume the future economic benefits of these assets.

The main useful lives are as follows:

- 50 to 55 years for transmission pipelines, terminalling facilities and tanks,
- 50 years for administrative buildings, staff housing and facilities;
- 40 years for storage facilities;
- 33 years for industrial buildings;
- 20 years for investments related to the extensions of the Zeebrugge LNG terminal;
- 10 years for equipment and furniture;

- 5 years for vehicles and site machinery;
- 4 years for computer hardware;
- 3 years for prototypes;
- 10 to 40 years for other installations.

The useful life, the depreciation method, as well as the potential residual value of property, plant and equipment are reassessed at each balance sheet date and revised prospectively, if applicable.

2.9. Unconsolidated investments (such as shares and equity rights)

Unconsolidated equity investments are recognised at fair value or at cost if their fair value cannot be reliably established.

Changes in fair value are recognised directly in other comprehensive income until the asset is derecognised, at which time the cumulative amount in other comprehensive income is transferred from equity to the income statement.

In case of objective indications of impairment of unconsolidated equity investments, an impairment test is carried out, and, if necessary, an impairment loss is directly recognised in the income statement.

2.10. Finance lease receivables

Assets under finance lease are assets for which the group substantially transfers risks and rewards related to the economic ownership to the lessee. Assets leased under such contracts are recognised on the balance sheet as receivables in an amount equal to the net investment in the lease contract in question.

Lease payments are apportioned between financial income and a reduction of the lease receivable so as to achieve a constant rate of return on the net investment by the group in the finance lease contract.

When the classification of contracts under finance lease is based on the present value of the minimum lease payments, the following criteria is adopted: a contract is considered as finance lease if the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset at the start of the lease contract.

No residual value is assumed for gas transmission assets in Belgium, due to the specific nature of the activities concerned.

2.11. Inventories

Valuation

Inventories are valued at the lower of cost and net realisable value.

Inventories are written down to account for:

- a reduction in net realisable value, or
- impairment losses due to unforeseen circumstances related to the nature or use of the assets.

These write-downs on inventories are recognised in the income statement in the period in which they arise.

Gas inventory

Gas inventory changes are valued under the weighted average cost method.

Supplies and consumables

Supplies and consumables are valued under the weighted average cost method.

Work in progress

Work in progress for third parties is valued at cost, including indirectly attributable costs.

When the outcome of a contract can be reliably estimated, contract revenue and expenses are recognised as revenue and expenses respectively by reference to the stage of completion of the contract at balance sheet date.

Any expected loss is recognised immediately as an expense in the income statement.

2.12. Borrowing costs

Borrowing costs directly attributable to the acquisition, building or production of assets requiring a substantial period of time to get ready for their intended use (property, plant and equipment, inventories, investment property, etc.) are added to the costs of the assets concerned until they are ready for use or sale.

The amount of the borrowing costs to be capitalised is the actual cost incurred in borrowing the funds, as reduced by income from any temporary investment of these funds.

2.13. Financial instruments

Cash investments

Investments in the form of bonds or commercial paper, having a maturity date exceeding three months, are reported as financial assets at fair value with changes to the income statement. These are shown in the balance sheet under non-current 'other financial assets' and under current 'investments'. Changes in the fair value of these financial assets are directly recognised in the income statement.

The other investments are valued at depreciated cost.

Derivative instruments

The Fluxys Group uses derivative financial instruments to hedge its exposure to exchange and interest rate risks.

Derivative instruments not designated as hedging instruments

Certain financial instruments, although hedging clearly defined risks, do not meet the strict criteria for the application of hedge accounting under IAS 39 – Financial Instruments: Recognition and Measurement.

Changes in the fair value of these financial instruments are directly recognised in the income statement.

Derivative instruments designated as hedging instruments

Changes in the fair value of financial instruments designated as hedges of a net investment in an activity abroad, and which meet the associated conditions, are recognised directly in equity provided that they relate to the effective portion of the hedge and that the changes in fair value result from changes in exchange rate.

Gains or losses on hedging instruments recognised directly in equity must be recognised in the income statement when the activity abroad leaves the consolidation scope.

Changes in the fair value of financial instruments designated as cash flow hedges are recognised directly in group equity. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement. If the planned transaction is no longer likely to take place, gains or losses on the hedging instruments which were recognised directly in equity are recognised in the income statement.

2.14. Cash and cash equivalents

Cash and cash equivalents include short-term investments, short-term bank deposits and deposits readily convertible to a known cash amount, which are subject to an insignificant risk of changes in value (maximum of three months).

Cash equivalents held in the form of bonds or commercial paper are reported as financial assets at fair value with changes to the income statement. Changes in the fair value of these financial assets are directly recognised in the income statement.

Cash and other cash equivalents are valued at depreciated cost.

2.15. Trade and other receivables

Trade and other receivables are stated at their face value reduced by any amounts deemed unrecoverable.

When the time value of money is significant, trade and other receivables are discounted.

Impairment losses are recognised when the book value of these items at balance sheet date exceeds their recoverable amount.

2.16. Provisions

Provisions are recognised as a liability in the balance sheet when they meet the following criteria:

- the group has a present (legal or constructive) obligation arising from past events, and
- it is probable (i.e. more likely than not) that the settlement of this obligation will lead to an outflow of resources embodying economic benefits, and
- the amount of the obligation can be reliably estimated.

No provision is recognised if the above conditions are not met.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, in other words the amount the entity reasonably expects to need to pay to discharge the obligation at balance sheet date, or to transfer it to a third party at the same date.

This estimation is based either on a request from a third party or on estimates or detailed calculations. For all provisions recognised, management considers that the probability of an outflow of resources exceeds 50%.

When the time value of money is significant, provisions are discounted. The discount rate used is a rate before tax reflecting current market estimates of the time value of money and taking into account any risks associated with the type of liability in question.

All risks incurred by the group that do not comply with the above-mentioned criteria are disclosed as contingent liabilities in the Notes.

Employee benefits

Some companies in the Fluxys Group have established supplementary 'defined benefit' or 'defined contribution' pension plans. Benefits provided under these plans are based on the number of years of service and the employee's salary.

'Defined benefit' pension plans enable employees to benefit from a capital sum calculated on the basis of a formula which takes account of their annual salary at the end of their career and their seniority when they retire.

'Defined contribution' pension plans provide employees with a capital sum accumulated from personal and employer contributions based on their salary.

In Belgium, the law requires that the employer guarantee a minimum return for defined contribution plans, which varies based on market rates.

The accounting method used by the group to value these 'defined contribution pension plans, with a guaranteed minimum return', is identical to the method used for 'defined benefit' plans.

In case of death before retirement, these plans provide, in Belgium, a lump sum for the surviving spouse and benefits for the orphans.

Other employee benefits:

Certain group companies offer their employees post-employment benefits such as the reimbursement of medical costs and tariff reductions, and other long-term benefits (seniority premiums).

Valuation

These liabilities are valued annually by a qualified actuary.

Regular payments made in relation to the supplementary pension plans are recognised as expenses at the time they are incurred.

'Defined benefit' pension plans

Provisions for pensions and other collective agreements are reported in the balance sheet in accordance with IAS 19 (Employee Benefits), using the projected unit credit method (PUCM).

The current value of post-employment benefits is determined at each balance sheet date based on the projected salary estimated at the end of the employee's career, the rate of inflation, life expectancy, staff turnover and the expected age of retirement. The present value of defined benefit obligations is determined using a discount rate based on high-quality bonds with maturity dates close to the weighted average maturity of the plans concerned and which are denominated in the currency in which the benefits are to be paid.

Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

The amount accounted for in respect of post-employment liabilities corresponds to the difference between the current value of future obligations and the fair value of assets in the plan destined to cover them. Any deficit resulting from this valuation is subject to the recognition of a provision to cover this risk. In the opposite case, an asset is recognised in line with the surplus of the benefit pension plan, capped at the current value of any future reimbursement from the plan or any reduction in future contributions to the plan.

The remeasurements of the liabilities or assets in the balance sheet comprise:

- the actuarial gains or losses on the defined benefit liabilities resulting from adjustments relating to experience and/or changes in actuarial assumptions (including the effect of the change in the discount rate);
- the return on plan assets (excluding amounts included in net interest) and changes in the effect of the asset ceiling (excluding amounts included in net interest).

These remeasurements are directly recognised in equity ('Other comprehensive income') through the other items in comprehensive income.

'Defined contribution' pension plans

The liabilities of the group with regard to 'defined contribution' plans are limited to the employer contributions paid recorded in the results.

Actuarial gains and losses relating to other long-term employee benefits

The other long-term benefits are accounted for in the same way as the post-employment benefits, but remeasurements are fully accounted for in the financial results in the financial year in which they occur.

2.17. Interest-bearing liabilities

Interest-bearing liabilities are recognised at the net amount received. Following initial recognition, interest-bearing liabilities are recorded at depreciated cost. The difference between the depreciated cost and the redemption value is recognised in the income statement under the effective interest rate method over the term of the liabilities.

2.18. Trade payables

Trade payables are stated at face value.

When the time value of money is significant, trade payables are discounted.

2.19. Foreign currency assets, rights, borrowings and liabilities

Recognition at the date of the transaction

Foreign currency receivables and payables are measured at the exchange rate prevailing at the transaction date.

Measurement at balance sheet date

At balance sheet date, in accordance with IAS 21 (Effects of Changes in Foreign Exchange Rates), monetary assets and liabilities, as well as rights and liabilities, are valued at the closing rate.

The resulting foreign currency translation gains and losses are recognised in the income statement.

2.20. Revenue recognition

Revenue is measured at the fair value of the consideration received or to be received, in case revenue is deemed to belong to the company and the fair value can be measured reliably.

Regulated income received by the group may generate a gain or a loss compared with the target rate of return on the capital invested.

Gains are reported and recognised as regulatory liabilities (under interest-bearing liabilities, current or non-current), whereas losses are included in operating revenue to offset the accounting of regulatory assets (under non-current loans and receivables or under current trade and other receivables).

2.21. Income taxes

Current tax is determined in accordance with local tax regulations and calculated on the income of the parent entity, subsidiaries and joint operations.

Deferred tax liabilities and assets reflect, respectively, the future taxable and deductible temporary differences between the book value and the tax base of assets and liabilities.

Deferred tax liabilities and assets are measured at the income tax rate applicable to the financial year in which the underlying asset is expected to be realised or the underlying liability settled, considering the new rates if they are enacted or substantially enacted at the closing date.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the future deductible temporary differences can be offset.

Note 3. Investments

3.1. Consolidation scope

The consolidation scope changed as follows in 2016:

FluxSwiss:
In June 2016, Global Infrastructure Partners (GIP) sold its holding in FluxSwiss to Fluxys Europe (0.45%), Crédit Suisse (36.56%) and Swiss Gas Invest (7.89%). Following this acquisition of 0.45% for an amount of €4.6 million, the total holding of Fluxys Europe in FluxSwiss increased to 50.65%. This investment has no impact on the method of consolidation, FluxSwiss already being fully consolidated in the Fluxys Group accounts.

Huberator:
Huberator was liquidated in December 2016, the latter’s activities having been taken over by Fluxys Belgium at the end of 2015.

BoostHEAT:
Fluxys acquired a holding of 7.67% in BoostHEAT in December 2016 through which it invests in innovative gas technology (see Note 5.5.1). This company is not consolidated by the Fluxys Group.

Interconnector (UK):
In mid-December 2015, the group acquired the 10% stake held by Gazprom in Interconnector (UK), a crucial axis for the transmission of natural gas in both directions between the United Kingdom and the continental Europe markets. The Fluxys Group has consequently become the majority shareholder of the company, with the total stake held going up to 50.75%. This additional 10% stake was acquired for €61.4 million, through Fluxys Interconnector Ltd which is 100% held by the holding company Fluxys UK Ltd. This latter company is a 100% subsidiary of Fluxys Europe.

The acquisition agreement provides for the payment of an additional earn-out in the event of additional reservations of capacity in Interconnector (UK) before September 2023. This amount is unable to be assessed at this stage and will therefore impact profit/loss in the future where applicable.

Interconnector UK is from now on controlled by the group and fully consolidated with effect from 15 December 2015.

Following this business combination achieved in stages, the Fluxys Group has revalued the stake it previously held in Interconnector which confirmed the amount accounted for previously.

The table provided hereafter shows the fair value of assets acquired and liabilities assumed as at 31 December 2015 in detail. The part of these assets and liabilities recorded that belong to non-controlling interests comes to €333.2 million (49.25%).

These figures reported on 31 December 2015 are very close to the figures as at 15 December 2015, the date of the acquisition of the controlling interest in Interconnector (UK).

Interconnector (UK) - Assets acquired and liabilities assumed at fair value as at 31-12-2015	In thousands of €
I. Non-current assets	**1,112,270**
Property, plant and equipment	729,184
Intangible assets	245,449
Other financial assets	340
Loans and receivables	137,297
II. Current assets	**74,944**
Trade and other receivables	25,624
Cash and cash equivalents	49,320
III. Non-current liabilities	**-423,482**
Interest-bearing liabilities	-220,170
Provisions	-6,422
Deferred tax liabilities	-196,890
IV. Current liabilities	**-87,277**
Interest-bearing liabilities	-39,095
Current tax payables	-20,571
Trade and other payables	-13,539
Other current liabilities	-14,072
Total of assets acquired and liabilities assumed	**676,455**

3.2. Nature and extent of stakes held in joint arrangements

Transitgas and TENP KG

Transitgas is a joint arrangement in which FluxSwiss exercises a joint control with the other joint operators.

Transitgas is qualified as a joint operation for the following reasons:

The purpose of the activities of Transitgas is essentially to put the capacity of its installations at the disposal of the joint operators. This gives them the right to almost all of the economic benefits of the assets of the operation. They also incur obligations against liabilities related to the operation. Indeed, the liabilities incurred by Transitgas are paid through cash flows received from the joint operators through the considerations paid for the capacity made available.

FluxSwiss holds 90% of the capacity of the Transitgas installations. The latter are therefore integrated for 90% in the consolidated financial statements of the group. This integration percentage is not based on the investment held in this company but on the rights to the assets and liabilities incurred by the group for the liabilities.

This method better reflects the risks and benefits of the joint operators related to the capacity reserved in the installations.

TENP KG is a joint arrangement in which Fluxys TENP exercises a joint control with the other joint operators.

The approach in the framework of this joint arrangement is identical, except that this joint operation is integrated for 64.25% in the consolidated financial statements of the group in accordance with the capacity reserved in the installations.

3.3. Nature and scope of the restrictions related to the assets and liabilities of the group

Special rights are attached to the special share of the Belgian State in Fluxys Belgium, other than the normal rights attached to all other shares. These special rights are exercised by the Federal Minister in charge of Energy and can be summarised as follows:

- The right to oppose all transfers, any assignment as security or change of the destination of strategic assets of Fluxys Belgium of which the list is set out in an annex to the royal decree of 16 June 1994, if the Federal Minister in charge of Energy considers that this operation prejudices the national interests in the area of energy;
- The right to appoint two representatives of the federal government with a consultative vote in the Board of Directors and the Strategic Committee of Fluxys Belgium.
- The right of the representatives of the federal government, within four business days, to appeal to the Federal Minister in charge of Energy on the basis of objective, non-discriminatory and transparent criteria, as defined in the Royal Decree of 5 December 2000, against any decision of the Board of Directors or any advice of the strategic Committee of Fluxys Belgium (including the investment and business plan and related budget) which they regard as contrary to the guidelines of the country's energy policy, including the government's objectives concerning the country's energy supply. The appeal is suspensive. If the Federal Minister in charge of Energy has not cancelled the decision concerned within eight business days after this appeal, it becomes final.
- A special voting right in case of deadlock in the General meeting on a matter concerning the objectives of the federal energy policy.

In addition, there are provisions at the level of GasBridge 1 and GasBridge 2 to enable to solve potential deadlock situations, provisions requiring a reallocation of shares among the partners in these companies. As a result, Fluxys Europe controls GasBridge 1 whilst GasBridge 2 is controlled by SNAM.

Other shareholders' agreements have been entered into within Fluxys Group subsidiaries. These provide for pre-emptive rights at the time of transfer of securities by a shareholder, as well as certain special majorities needed for decision-making in specific matters. These do not affect the control exercised by the group over its subsidiaries or the joint control over its joint operations.

There are no other significant restrictions that could limit the ability of the group to access or use its assets and discharge its liabilities. However it must be noted that the assets of Flux Re are destined to cover the risk of the company in the scope of its reinsurance activities. The total assets in the balance sheet of Flux Re amount to €172.1 million as at 31-12-2016 compared with €168.4 million as at 31-12-2015.

Certain financing agreements however provide for maintaining a minimum level of cash and cash equivalents in the companies concerned for a total of €46.4 million as at 31 December 2016 compared with €55.4 million as at 31 December 2015.

3.4. Information on investments

Fully consolidated entities						
Name of the subsidiary	Registered office	Entity number	% ownership	Core business	Currency	Balance sheet date
FLUXYS BELGIUM SA	Avenue des Arts 31 B - 1040 Bruxelles	0402 954 628	89.97%	Gas transmission	EUR	31 December
FLUXYS LNG SA	Rue Guimard 4 B - 1040 Bruxelles	0426 047 853	89.97%	LNG terminalling	EUR	31 December
FLUX RE SA	Rue de Merl 74 L - 2146 Luxembourg	-	89.97%	Reinsurance entity	EUR	31 December
FLUXYS FINANCE SA	Rue Guimard 4 B - 1040 Bruxelles	0821 382 439	100.00%	Financial services	EUR	31 December
FINPIPE GIE	Rue Guimard 4 B - 1040 Bruxelles	0444 889 015	100.00%	Leasing of facilities and services	EUR	31 December
FLUXYS EUROPE BV	Heerbaan 246 NL – 4817 Breda	-	100.00%	International activity	EUR	31 December
FLUXYS BBL BV	Heerbaan 246 NL – 4817 Breda	-	100.00%	Gas transmission	EUR	31 December
FLUXYS DEUTSCHLAND GmbH	Elisabethstr. 11 D - 40217 Düsseldorf	-	100.00%	Gas transmission	EUR	31 December
FLUXYS TENP GmbH	Elisabethstr. 11 D - 40217 Düsseldorf	-	100.00%	Gas transmission	EUR	31 December
FLUXSWISS SAGL	Via della Posta 2 CH - 6900 Lugano	-	50.65 %	Gas transmission	CHF	31 December
FLUXYS UK Ltd[4]	Clarendon Road GB - Cambridge CB2 8FH	-	100.00%	International activity	GBP	31 December
GMSL Ltd	Clarendon Road GB - Cambridge CB2 8FH	-	100.00%	Services	GBP	31 December
FLUXYS INTERCONNECTOR Ltd[5]	Clarendon Road GB - Cambridge CB2 8FH	-	100.00%	International activity	GBP	31 December
GasBridge 1 BV	Westblaak 89 NL – 3012KG Rotterdam	-	50.00%	Holding	EUR	31 December
Interconnector (UK) Ltd	Furnival Street 10 UK - London EC4A 1AB	-	50.75%	Gas transmission	GBP	31 December
Interconnector Zeebrugge Terminal SCRL	Rue Guimard 4 B - 1040 Bruxelles	0454 318 009	50.37%	Terminal	EUR	31 December

[4] Company exempt from the obligation of an external audit and for which Fluxys Europe is guarantor for the debts outstanding on the balance sheet date.

[5] Company exempt from the obligation of an external audit and for which Fluxys Europe is guarantor for the debts outstanding on the balance sheet date.

Joint operations integrated based on rights on assets and obligations on liabilities

Name of the company	Registered office	Entity number	% ownership	Core business	Currency	Balance sheet date
TENP KG	Gladbecker Strasse 425 D- 45138 Essen	-	64.25%	Leasing of facilities and services	EUR	31 December
Transitgas AG	Baumackerstrasse 46 CH - 8050 Zurich	-	45.59 %	Leasing of facilities and services	CHF	31 December
BBL Company VOF	Concourslaan 17 NL - 9700AE Groningen	-	20.00%	Gas transmission	EUR	31 December
NEL (Nordeuropäische Erdgasleitung)	-	-	23.87%	Gas transmission	EUR	31 December

Subsidiaries with significant non-controlling interests

In thousands of €

	31-12-2016*	31-12-2016*	31-12-2016*	31-12-2016*	31-12-2016*
100%	Fluxys Belgium Group	Swiss Group	Interconnector (UK)	Other subsidiaries (GasBridge 1 & Huberator)	TOTAL
Non-current assets	2,653,427	1,148,624	811,005		
Current assets	525,826	116,615	67,027		
Equity	819,824	521,139	506,837		
Non-current liabilities	2,172,601	634,826	289,564		
Current liabilities	186,828	109,274	81,631		
Operating revenue	570,342	168,928	221,421		
Operating expenses	-460,501	-83,085	-198,376		
Net financial result	-46,794	-24,547	-3,197		
Income tax expenses	-20,349	-13,827	9,020		
Net profit/loss for the period	42,698	47,469	28,868		
Balance sheet - Non-controlling interests	82,215	257,182	249,617	9,230	**598,244**
Profit/loss – non-controlling interests	4,282	23,426	14,217	-569	**41,356**

** Figures on an annual basis are 100% subject to approval by the companies' management bodies and general meeting. Swiss Group corresponds to the consolidation of FluxSwiss integrating 90% of Transitgas.*

Subsidiaries with significant non-controlling interests					In thousands of €
	31-12-2015	31-12-2015	31-12-2015	31-12-2015	31-12-2015
100 %	Fluxys Belgium Group	Swiss Group*	Interconnector (UK)	Other subsidiaries (GasBridge 1 & Huberator)	TOTAL
Non-current assets	2,691,344	1,198,886	1,112,269		
Current assets	546,779	140,073	74,944		
Equity	869,404	491,975	676,454		
Non-current liabilities	2,213,708	732,197	423,482		
Current liabilities	155,011	114,787	87,277		
Operating revenue	605,316	184,502	250,539		
Operating expenses	-463,442	-92,906	-178,742		
Net financial result	-54,271	-33,475	22,320		
Income tax expenses	-31,831	-15,039	-14,395		
Net profit/loss for the period	55,772	43,082	79,722		
Balance sheet - Non-controlling interests	86,996	245,003	333,240	11,332	**676,571**
Profit/loss – non-controlling interests	5,593	21,455	5,161	262	**32,471**

** Swiss Group corresponds to the consolidation of FluxSwiss integrating 90% of Transitgas*

Equity accounted investees – Joint ventures

Name of the company	Registered office	Entity number	% ownership	Core business	Currency	Balance sheet date
Gaz-Opale	Rue de l'Hermitte 30 Immeuble des 3 Ponts F - 59140 Dunkerque	-	61.75%	Services	EUR	31 December
TENP GmbH	Ruhrallee 74 D - 45138 Essen	-	50.00%	Services	EUR	31 December
BALANSYS SA	rue de Bouillon 59-61 L-1248 Luxembourg	-	50.00%	Balancing operator	EUR	31 December

Equity accounted investees - Associates

Name of the company	Registered office	Entity number	% ownership	Core business	Currency	Balance sheet date
Dunkerque LNG SAS	Rue de l'Hermitte 30 Immeuble des 3 Ponts F - 59140 Dunkerque	-	25.00%	LNG terminalling	EUR	31 December
GasBridge 2 BV	Westblaak 89 NL – 3012KG Rotterdam	-	50.00 %	Holding	EUR	31 December
Knubbsäl Topholding AB	Sergels Torg 12, 12th floor SE - 103 25 Stockholm	-	50.00%	Gas transmission	SEK	31 December
LNG Link Investment AS	Luramyrveien 40 NO - 4391 Sandnes	-	25.00%	Shipping	NOK	31 December
Mahon Shipping SA	Rue Gachard 88 B - 1050 Bruxelles	0633 885 793	25.00%	Shipping	EUR	31 December
Trans Adriatic Pipeline AG	Lindenstrasse 2 CH – 6340 Baar	-	19.00 %	Gas transmission	EUR	31 December

Financial statements of equity accounted investees						In thousands of €
	31-12-2016*	31-12-2016*	31-12-2016*	31-12-2016*	31-12-2016*	31-12-2016*
100 %	Dunkerque LNG	Trans Adriatic Pipeline AG	Knubbsal	GasBridge II	Other companies	TOTAL
Non-current assets	1,210,633	1,803,491	662,704	81,077		
Current assets	108,277	119,022	28,634	18,440		
Equity	1,218,352	556,694	158,392	99,473		
Non-current liabilities	6,204	1,084,661	526,648	0		
Current liabilities	94,354	281,158	6,298	44		
Operating revenue	6,930	51	50,178	0		
Operating expenses	-21,699	-21,014	-34,092	-79		
Net financial result	524	2,426	-9,267	-290		
Investments in associates	0	0	0	4,020		
Income tax expenses	-1,571	2,883	-1,488	0		
Net profit/loss for the period	-15,816	-15,654	5,331	3,651		
Investments in associates	304,588	105,772	79,196	9,198	1,434	**500,188**
Profit/loss from investments in associates	-3,954	-2,974	2,666	-546	97	**-4,711**

** Figures before eliminations of intra-group operations on an annual basis at 100% and subject to the approval of the management bodies and the general meeting of the companies.*

Financial statements of equity accounted investees						In thousands of €
	31-12-2015*	31-12-2015*	31-12-2015*	31-12-2015*	31-12-2015**	31-12-2015*
100 %	Dunkerque LNG	Trans Adriatic Pipeline AG	Knubbsal	GasBridge II	Other companies	TOTAL
Non-current assets	1,104,048	734,356	706,927	110,173		
Current assets	187,459	160,301	32,299	19,015		
Equity	1,038,492	397,502	191,115	129,153		
Non-current liabilities	4,392	397,045	542,489	0		
Current liabilities	248,623	100,110	5,622	35		
Operating revenue	1,541	10	21,883	0		
Operating expenses	-14,749	-18,909	-22,357	-71		
Net financial result	-46	535	-3,578	40		
Investments in associates	0	0	0	7,914		
Income tax expenses	4,519	3,334	811	0		
Net profit/loss for the period	-8,735	-15,030	-3,241	7,883		
Investments in associates	259,623	75,525	95,558	9,490	-479	**439,717**
Profit/loss from investments in associates	-2,184	-2,856	-1,621	162	25,135	**18,636**

** Figures before eliminations of intra-group operations on an annual basis at 100%*

*** The profit/loss from other companies accounted for using the equity method include the profit/loss of Interconnector (UK) until 15-12-2015, the date from which the company was fully consolidated.*

Main unconsolidated entities

Name of the company	Registered office	% ownership	Core business
BoostHEAT	Bld Marcel Sembat 41-47 F-69200 Venissieux	7.67%	Innovation in natural gas usage
NetConnect Germany GmbH & Co. KG	Kaiserswerther Str. 115 D-40880 Ratingen	10.00%	Conduct market area corporation
NetConnect Germany Management GmbH	Kaiserswerther Str. 115 D-40880 Ratingen	10.00%	Conduct market area corporation
Prisma European Capacity Platform GmbH	Schillerstraße 4 D-04109 Leipzig	10.62%	Transmission capacity reservation platform
FL Zeebrugge NV	Chaussée de Gand 1440 B-1082 Bruxelles	12.69 %	Finance lease company
C4Gas SAS	Rue de La Pépinière 24 F-75008 Paris	10.00%	Purchasing portal

The Fluxys Group holds, through the Interconnector (UK) group, 12.69% of the company FL Zeebrugge NV, a company which provides tangible assets under finance lease to the company Interconnector Zeebrugge Terminal SCRL. The Interconnector (UK) group has subscribed to the bonds issued by FL Zeebrugge NV with a view to partially financing the assets provided under finance lease. The Interconnector (UK) group has a purchase option on these assets provided under finance lease which can be exercised until 2025. Although this entity is not consolidated, the assets held under finance lease are recognised under property, plant and equipment, offset with a finance lease debt.

Note 4. Income statement and operating segments

Operating segments

The Fluxys Group carries out activities in the following operating segments:

- The Belgium segment comprises the regulated activities in Belgium and supplementary activities thereto,
- The Europe segment comprises mainly activities outside Belgium.

The segment information is based on a classification into these operating segments.

The Belgium segment comprises all services subject to the Belgian Gas Act, i.e. transmission, storage in Loenhout and LNG terminalling services in Zeebrugge. Other activities with a link to these services are included in this segment, whether or not subject to the Gas Act. They mainly comprise the stake in the IZT and ZPT terminals[6], making facilities or persons available as well as work for third parties.

The Europe segment comprises the revenue generated by the transmission facilities in Germany, Switzerland, between Zeebrugge and Belgium and Bacton in the UK (IUK) and between Balgzand in the Netherlands and Bacton in the UK (BBL), the revenue from the holding in Dunkerque LNG, gas dispatching services and the sale of software solutions.

The 'Unallocated' column comprises the governance and financial management activities of the Fluxys Group.

Basis of accounting relating to transactions between operating segments

Transactions between operating segments are valued either at the current regulated tariff or on the basis of the contractual prices in accordance with market conditions.

Information relating to the main customers

The group's main customers are users of transmission, storage and LNG terminalling services.

---

[6] Interconnector Zeebrugge Terminal (IZT) and Zeepipe Terminal (ZPT)

Segment income statement at 31-12-2016

In thousands of €

	Fluxys Belgium	Fluxys Europe	Unallocated	Elimination between segments	Total
Operating revenue					
Sales and services to external customers	508,145	518,861	442		1,027,448
Transactions with other sectors	1,345	7	5,373	-6,725	0
Sales of gas related to balancing operations and operational needs	47,245	1,848	0		49,093
Other operating income	14,743	2,940	3,271	-7,351	13,603
Consumables, merchandise and supplies used	-3,837	0	0	0	-3,837
Purchase of gas related to balancing of operations and operational needs	-47,138	-7,195	0		-54,333
Miscellaneous goods and services	-123,030	-92,730	-12,105	14,076	-213,789
Employee expenses	-113,438	-14,453	-6,357	0	-134,248
Other operating expenses	-7,332	-3,785	-2	0	-11,119
Depreciation and amortisation	-167,908	-256,405	-122	0	-424,435
Provisions for risks and charges	-964	6,858	-12	0	5,882
Impairment losses	2,009	0	0	0	2,009
Profit/loss from continuing operations	**109,840**	**155,946**	**-9,512**	**0**	**256,274**
Earnings from associates and joint ventures	0	-4,711	0		-4,711
Profit/loss before financial result and tax	**109,840**	**151,235**	**-9,512**	**0**	**251,563**
Change in the fair value of financial instruments					14,324
Financial income					18,488
Finance costs					-127,704
Profit/loss from continuing operations after net financial result					**156,671**
Income tax expenses					-38,387
Net profit/loss for the period					**118,284**

Segment income statement at 31-12-2015 — In thousands of €

	Fluxys Belgium	Fluxys Europe	Unallocated	Elimination between segments	Total
Operating revenue					
Sales and services to external customers	534,538	337,715	623		872,876
Transactions with other sectors	3,469	22	11,263	-14,754	0
Sales of gas related to balancing operations and operational needs	55,104	7,003	0		62,107
Other operating income	12,205	5,163	727	-2,794	15,301
Consumables, merchandise and supplies used	-3,920	0	0	0	-3,920
Purchase of gas related to balancing of operations and operational needs	-55,044	-18,375	0		-73,419
Miscellaneous goods and services	-123,635	-46,659	-16,346	17,548	-169,092
Employee expenses	-112,072	-14,827	-5,564	0	-132,463
Other operating expenses	-18,668	-4,068	-7	0	-22,743
Net depreciation	-151,834	-120,287	-154	0	-272,275
Provisions for risks and charges	2,268	-1,240	5	0	1,033
Net impairment losses	-537	0	0	0	-537
Profit/loss from continuing operations	**141,874**	**144,447**	**-9,453**	**0**	**276,868**
Earnings from associates and joint ventures	0	18,636	0		18,636
Profit/loss before financial result and tax	**141,874**	**163,083**	**-9,453**	**0**	**295,504**
Change in the fair value of financial instruments					-15,497
Financial income					44,693
Finance costs					-119,447
Profit/loss from continuing operations after net financial result					**205,253**
Income tax expenses					-51,593
Net profit/loss for the period					**153,660**

Note 4.1. Operating revenue

Analysis of operating revenue by business segment:

Operating revenue				In thousands of €
	Notes	31-12-2016	31-12-2015	Change
Fluxys Belgium	4.1.1	508,145	534,538	-26,393
Fluxys Europe and corporate	4.1.2	519,303	338,338	180,965
Total		**1,027,448**	**872,876**	**154,572**

Operating revenue for 2016 was €1,027,448 thousand compared with €872,876 thousand in 2015.

4.1.1. The 'Fluxys Belgium' segment comprises transmission, storage and terminalling services in Belgium which are subject to the Gas Act.

Revenue from these services aims to ensure an authorised return on capital invested and to cover the operating expenses related to these services, while integrating the productivity efforts to be accomplished by the network operator, as well as permitted depreciation.

Revenue from this segment also includes work and services for third parties and the provision of people and facilities.

Revenue from this segment fell by €26,393 thousand compared with the previous financial year.

This decrease in regulated revenue can primarily be explained by a decrease in the costs to be covered by tariffs, as regards operating expenses, finance costs and regulated returns. This decrease in costs has enabled Fluxys Belgium to maintain transmission tariffs invoiced to clients at their 2015 levels, including a 7% reduction compared with the previous tariffs.

4.1.2. The 'Fluxys Europe' segment comprises mainly revenues generated by transmission facilities in Switzerland, Germany, between Bacton in the United Kingdom and Zeebrugge in Belgium (Interconnector UK) and between Balgzand in the Netherlands and Bacton in the United Kingdom (BBL), and gas flow monitoring services on behalf of third parties.

The increase in this segment's revenue can be explained by the entry of Interconnector (UK) into the consolidation scope with effect from 15-12-2015.

This increase is however attenuated by the decrease in short-term sales opportunities, especially in Switzerland.

Note 4.2. Other operating income

Other operating income			In thousands of €
	31-12-2016	31-12-2015	Change
Other operating income	13,603	15,301	-1,698

Other operating income mainly comprises various recoveries from insurance companies and other debtors and income earned from supplying property or people.

In 2015, this item recorded the €3.4 million badwill realised following the first full consolidation of Interconnector (UK) Ltd.

Note 4.3. Operating expenses

Operating expenses excluding net depreciation impairment losses and provisions			In thousands of €
	Notes	31-12-2016	31-12-2015
Consumables, merchandise and supplies used	4.3.1	-3,837	-3,920
Miscellaneous goods and services	4.3.2	-213,789	-169,092
Employee expenses	4.3.3	-134,248	-132,463
Other operating expenses	4.3.4	-11,119	-22,743
Total operating expenses		**-362,993**	**-328,218**
Of which costs related to lease agreements	4.3.2	-24,740	-28,852

4.3.1. Consumables, merchandise and supplies used

Consumables, merchandise and supplies used mainly include costs for transport material taken out of inventory for maintenance and repair projects and costs for work carried out on behalf of third parties.

4.3.2. Miscellaneous goods and services

Miscellaneous goods and services comprise purchase of equipment, rent and rental charges (See Note 7.5), maintenance and repair expenses, goods and services supplied to the company, third party remuneration, royalties and contributions, non-personnel related insurance costs, transport and travel expenses, telecommunication costs, publication and information costs and, finally, temporary and support staff expenses.

The increase in this item can be explained by the entry of Interconnector (UK) into the consolidation scope, effective from 15-12-2015 for €46.7 million. With an equivalent consolidation scope, the cost of miscellaneous goods and services reduced primarily thanks to efficiency efforts realised by the group. These have allowed Fluxys Belgium to be in line with the new terms of reference set for the regulatory period 2016-2019 and even to make efficiency gains, although less than those realised in 2015.

The remuneration paid to Deloitte in its capacity as the group's statutory auditor[7] totalled €485,757. In addition, Deloitte performed other tasks for which it was paid a total of €37,674.

4.3.3. Employee expenses

The group's average headcount was 1,231 in 2016 compared with 1,187 in 2015. Expressed in FTE (full-time equivalents), these figures convert to 1,189.2 in 2016 compared to 1,144.6 in 2015.

Employee expenses have increased by €1,785 thousand. This can primarily be explained by the entry into the consolidation scope of Interconnector (UK) as well as by the non-recurring effects linked to the accounting of long-term employee benefits in accordance with IAS 19.

---

[7] Not including investments accounted for using the equity method

Workforce

	Financial year		Preceding financial year	
	Total number of staff	Total In FTE	Total number of staff	Total In FTE
Average number of employees	1,231	1,189.2	1,187	1,144.6
Fluxys	44	37.2	40	33.0
Executives	*35*	*28.9*	*33*	*26.4*
Employees	*9*	*8.3*	*7*	*6.6*
Fluxys Belgium	905	875.2	942	911.9
Executives	274	268.2	286	279.4
Employees	631	607.0	656	632.5
Fluxys LNG	40	38.8	38	37.4
Executives	5	4.2	3	2.6
Employees	35	34.6	35	34.8
Flux Re	1	0.5	1	0.4
GMSL	94	94.2	88	87.3
FluxSwiss	7	6.3	7	6.6
Fluxys TENP	11	10.8	11	10.6
Fluxys Deutschland	5	5.0	4	3.9
Interconnector (UK)	72	70.7	3	3.0
Transitgas	50	48.9	51	49.0
Tenp KG	2	1.6	2	1.5

Workforce				
	Financial year		Preceding financial year	
	Total number of staff	Total In FTE	Total number of staff	Total In FTE
Headcount at balance sheet date	**1,223**	**1,181.6**	**1,250**	**1,208.2**
Fluxys	**47**	**39.8**	**40**	**32.8**
Executives	37	30.5	34	27.2
Employees	10	9.3	6	5.6
Fluxys Belgium	**893**	**862.6**	**930**	**898.5**
Executives	272	266.0	281	274.2
Employees	621	596.6	649	624.3
Fluxys LNG	**39**	**38.8**	**37**	**36.8**
Executives	4	4.0	2	2.0
Employees	35	34.8	35	34.8
Flux Re	**1**	**0.5**	**0**	**0.0**
GMSL	**96**	**95.7**	**96**	**95.9**
FluxSwiss	**7**	**6.8**	**7**	**7.0**
Fluxys TENP	**11**	**11.0**	**10**	**10.0**
Fluxys Deutschland	**5**	**5.0**	**5**	**5.0**
Interconnector (UK)	**70**	**69.4**	**71**	**71.0**
Transitgas	**52**	**50.4**	**52**	**49.7**
Tenp KG	**2**	**1.6**	**2**	**1.5**

4.3.4. Other operating expenses

Other operating expenses include property taxes, local taxes, and losses on disposals or retirements of property, plant and equipment.

The latter represented an expense of €1,583 thousand in 2016, compared with €13,056 thousand in 2015.

4.3.5. Net depreciation, impairment losses and provisions

Net depreciation, impairment losses and provisions			In thousands of €
	Notes	**31-12-2016**	**31-12-2015**
Depreciation	4.3.5.1	**-424,435**	**-272,275**
Intangible assets		-130,063	-51,347
Property, plant and equipment		-294,372	-220,928
Impairment losses		**2,009**	**-537**
Inventories		2,009	-537
Provisions for risks and charges		**5,882**	**1,033**
Total net depreciation, impairment losses and provisions		**-416,544**	**-271,779**

4.3.5.1. Depreciation

The intangible assets resulting from the Fluxys business combinations have been depreciated in accordance with the accounting methods, namely predominantly over 40 years for the fixed asset 'sole operator of the natural gas transmission network and storage facilities' in Belgium, between 20 and 40 years for the acquired customer portfolios and over 20 years for the fixed asset 'sole operator of the LNG facilities'.

The depreciation of property, plant and equipment increased following the entry of Interconnector (UK) into the consolidation scope and following the prospective review of depreciation method for these installations.

The use of the assets of Interconnector (UK) is closely linked to market demand. The group has prospectively reviewed the method of depreciation to better reflect the consumption of economic benefits that these assets represent.

This prospective review can primarily be explained by the fact that the long-term capacity subscription contracts end in September 2018, the date on which the activities of Interconnector (UK) will be regulated. The value in use of these facilities at the end of those contracts is highly sensitive to the assumptions considered.

These latter have been established by the group based on best estimates of future market demand, necessary maintenance investments and the estimated change in operating expenses.

An additional depreciation charge of €41.2 million has therefore been recorded in 2016 in the group's income statement, in addition to the €34.7 million registered according to the initial plan.

Note 4.4. Financial income

Financial income			In thousands of €
	Notes	31-12-2016	31-12-2015
Dividends from unconsolidated entities		9	8
Financial income from lease contracts		0	137
Interest income on investments, cash and cash equivalents at fair value through profit and loss	4.4.1	7,520	4,756
Other interest income	4.4.1	4,277	233
Unwinding of discounts	4.4.2	0	1,630
Other financial income	4.4.3	6,682	37,929
Total		**18,488**	**44,693**

4.4.1. The increase in this item can primarily be explained by the entry of Interconnector (UK) into the consolidation scope, effective from 15-12-2015. The volume of cash invested during the previous financial year had been affected by the issue, at the end of 2014, of a bond by Fluxys Belgium in anticipation of the repayment of the bond maturing at the end of 2015.

4.4.2. In 2016, the effects of discounting provisions are recognised in the recording of a financial cost (see Note 4.5.2).

The rate used to discount liabilities relating to employee benefits (1.96% in 2015 compared with 1.45% in 2014) explains the income recognised in 2015. This change is analysed in Notes 5.13 'Provisions' and 5.14 'Provisions for employee benefits'.

4.4.3. Other financial income generally reflects the exchange rate differences realised on our foreign investments, an amount largely compensated by the variation in the value of financial instruments (see Note 4.5.4). In 2015, this item recognised the transfer into the income statement of other items from the comprehensive results, a transaction linked to the first full consolidation of Interconnector (UK).

The translation adjustments accumulated in equity (GBP) have therefore been accounted for in the profit/loss for an amount of €25.9 million.

This profit was partly compensated by the absorption of the differences in exchange rates accumulated in equity (€-6.9 million; see Note 4.5.3) and by the negative value of hedging instruments remaining on the date of acquisition of a controlling interest in Interconnector (€-7.1 million; see Note 4.5.4).

Note 4.5. Finance costs and change in the fair value of financial instruments

Finance costs			In thousands of €
	Notes	31-12-2016	31-12-2015
Borrowing interest costs	4.5.1	-98,723	-105,909
Unwinding of discounts on provisions	4.5.2	-897	-419
Other finance costs	4.5.3	-28,084	-13,119
Total		**-127,704**	**-119,447**

4.5.1. Borrowing interest costs mainly include interest on loans from the EIB (European Investment Bank), on bonds, on finance lease debts, on bank loans, on subsidiary loans in foreign currencies, on regulatory liabilities, and short- and medium-term financing in place to cover the group's financial needs.

The bond issued at the end of 2014 by Fluxys Belgium in anticipation of the repayment of the bond with maturity at the end of 2015 explains the temporary increase in interest costs in 2015.

These reflected, in 2015, the recognition of the part qualified as inefficient of the financial instruments linked to the interest rate hedge of our loans in Switzerland. This inefficiency was linked to the negative interest rates (€-4.4 million).

These non-recurring items are partially compensated by the entry of Interconnector (UK) into the consolidation scope, effective from 15-12-2015.

4.5.2. Costs related to the discounting of provisions are up (see Note 4.4.2). In 2016, the rates used for discounting liabilities relating to employee benefits (1.03% between 10 and 12 years and 1.55% more than 12 years) are lower than those used in 2015 (1.96%). This change is analysed in Notes 5.13 'Provisions' and 5.14 'Provisions for employee benefits'.

4.5.3. Other finance costs reflected, in 2016, the effect of the fall in the GBP exchange rates. This effect is partially covered by financial instruments (See Note 4.5.4). They reflected, in 2015, the effect of the recognition of the exchange rate difference accumulated in equity relating to the participation in Interconnector (UK) at the time of the takeover of the company (€6.9 million; see Note 4.4.3).

4.5.4. Change in the fair value of financial instruments

Change in the fair value of financial instruments			In thousands of €
	Note	31-12-2016	31-12-2015
Use and change in the fair value of financial instruments	4.5.4	14,324	-15,497
Total		**14,324**	**-15,497**

4.5.4. This item shows the result related to the use of financial instruments. In 2016, it mainly registered the effects of the hedging of differences in exchange rates pertaining to GBP (See Note 4.5.3). It was affected in 2015 by the fluctuation in GBP, CHF and SEK exchange rates as well as by the recognition of the negative value of financial instruments at the time of the acquisition of a controlling interest in Interconnector (UK) (see Note 4.4.3). The evolution of these financial instruments is detailed in Note 6.

Note 4.6. Earnings from associates and joint ventures

The earnings from associates and joint ventures amount to €-4,711 thousand in 2016 compared with €18,636 thousand in 2015.

This decrease can primarily be explained by the impact of projects under construction for which part of the costs cannot be activated in our Dunkerque LNG and TAP investments, as well as by the acquisition of a controlling interest in Interconnector (UK) which is fully consolidated since 15-12-2015.

Note 4.7. Income tax expenses

Income tax expense is analysed as follows:

Income tax expenses				In thousands of €
	Note	31-12-2016	31-12-2015	Change
Current tax	4.7.1	-117,613	-103,301	-14,312
Deferred tax	4.7.2	79,226	51,708	27,518
Total	**4.7.3**	**-38,387**	**-51,593**	**13,206**

The income tax expense came to €38,387 thousand in 2016 compared with €51,593 thousand in 2015.
It is broken down as follows:

4.7.1. Current tax			In thousands of €
	31-12-2016	31-12-2015	Change
Income taxes on the result of the current period	**-117,721**	**-103,143**	**-14,578**
Taxes and withholding taxes due or paid	-87,732	-78,278	-9,454
Excess of payment of taxes and withholding taxes included in assets	0	0	0
Additional taxes	-29,989	-24,865	-5,124
Adjustments to previous years' current taxes	**108**	**-158**	**266**
Total	**-117,613**	**-103,301**	**-14,312**

Current tax increased by €14,312 thousand compared with the previous financial year.

The increase in this item can primarily be explained by the entry of Interconnector (UK) into the consolidation scope, effective from 15-12-2015.

4.7.2. Deferred tax			In thousands of €
	31-12-2016	31-12-2015	Change
Relating to origination or reversal of temporary differences	**61,175**	**51,481**	**9,694**
Differences arising from the valuation of property, plant and equipment	65,828	54,409	11,419
Changes in provisions	-1,983	-3,907	1,924
Other changes	-2,670	979	-3,649
Relating to tax rate changes or to new taxes	**18,051**	**227**	**17,824**
Relating to changes in accounting policies and errors	**0**	**0**	**0**
Relating to changes in fiscal status of entity or shareholders	**0**	**0**	**0**
Total	**79,226**	**51,708**	**27,518**

Deferred tax is primarily influenced by the difference between the book value and the tax base of property, plant and equipment and intangible assets. The taxation of the transfer of universality of Huberator's assets to Fluxys Belgium, explains most of the changes in the use of deferred taxes in 2015. In 2016, the changes can be explained by the effect of the scope of Interconnector (UK) and by the prospective review of the depreciation method on these assets (see Note 4.3.5.1).

The change in the discount rate used for employee benefits (see Note 4.4.2 and Note 4.5.2) explains the change in differences arising from provisions.

The favourable effect of variations in interest rates comes from the adoption of new rates which will be applicable in the UK and Luxembourg. The deferred tax liabilities have been reviewed as a consequence and the difference has been recorded in the profit/loss for the financial year.

4.7.3. Reconciliation of expected income tax rate and effective average income tax rate

In thousands of €

	31-12-2016	31-12-2015	Change
Income tax as per effective average tax rate – Financial year	**-54,854**	**-63,431**	**8,577**
Profit/loss from continuing operations after net financial result	156,671	205,253	-48,582
Earnings from associates and joint ventures (-)	4,711	-18,636	23,347
Earnings before tax	161,382	186,617	-25,235
Applicable tax rate	33.99 %	33.99 %	
Reconciling items	**16,365**	**13,335**	**3,030**
Income tax rate differences between jurisdictions	13,341	10,151	3,190
Changes in tax rates	18,051	227	17,824
Tax-exempt income	0	0	0
Non-deductible expenses	-13,434	-7,264	-6,170
Taxable dividend income	-2,859	-1,697	-1,162
Deductible notional interest cost	1,180	2,047	-867
Other	86	9,871	-9,785
Income tax as per effective average tax rate – Financial year	**-38,489**	**-50,096**	**11,607**
Earnings before tax	161,382	186,617	-25,235
Average effective tax rate	23.85 %	26.84 %	-2.99 %
Taxes on tax-exempt reserves	**0**	**0**	**0**
Adjustments to previous years' current taxes	**102**	**-1,497**	**1,599**
Total income tax expense	**-38,387**	**-51,593**	**13,206**

The average effective tax rate for the year 2016 comes to 23.85% compared with 26.84% the previous year. In 2016, this rate was affected by the exchange rate differences recorded in GBP which were considered non-deductible from a tax perspective. The adoption of a new tax rate has a positive effect related to the revision of deferred tax (see Note 4.7.2).

In 2015, the average effective tax rate primarily benefited from the transfer into the income statement of elements of other comprehensive income, a transaction linked to the first global consolidation of Interconnector (UK) (see Note (4.4.3).

Note 4.8. Net profit/loss for the period

Net profit/loss for the period			In thousands of €
	31-12-2016	**31-12-2015**	**Change**
Non-controlling interests	41,356	32,471	8,885
Group share	76,928	121,189	-44,261
Total profit/loss for the period	**118,284**	**153,660**	**-35,376**

The consolidated net profit/loss was €118,284 thousand in 2016 compared with €153,660 thousand in 2015.

The evolution of profit/loss can primarily be explained by the prospective review of the depreciation recorded on the assets of Interconnector (UK) (see Note 4.3.5.1), by the contribution of the Fluxys Belgium segment, which is down, and by the impact of projects under construction, for which part of the costs are unable to be activated.

The regulated activity of the Fluxys Belgium segment was negatively affected by the decrease in the regulated return linked to the historic low in OLO rates. However, the efficiency gains realised during the period are lower than in 2015 following the new reference tariffs introduced for the regulatory period 2016-2019. Finally, the profit/loss for the year 2015 was favourably influenced by the revaluation surpluses recuperated by decommissioning old installations. These latter formed part of a decommissioning programme which ended at the end of 2015. This recovery of revaluation is no longer authorised since 2016.

Note 5. Segment balance sheet

Segment balance sheet at 31-12-2016				In thousands of €
	Fluxys Belgium	Fluxys Europe	Unallocated	Total
Property, plant and equipment	2,321,123	1,994,477	0	4,315,600
Intangible assets	242,332	497,008	0	739,340
Goodwill	1,924	0	0	1,924
Investments in associates and joint ventures	0	500,188	0	500,188
Other financial assets	57,022	11,532	0	68,554
Inventories	21,500	2,586	0	24,086
Net trade receivables	85,585	47,495	0	133,080
Other assets			802,222	802,222
				6,584,994
Interest-bearing liabilities	1,844,497	1,332,691		3,177,188
Other financial assets	0	28,230		28,230
Other liabilities			3,379,576	3,379,576
				6,584,994

Segment balance sheet at 31-12-2015				In thousands of €
	Fluxys Belgium	Fluxys Europe	Unallocated	Total
Property, plant and equipment	2,330,542	2,220,837	0	4,551,379
Intangible assets	259,834	633,651	0	893,485
Goodwill	1,924	0	0	1,924
Investments in associates and joint ventures	0	439,703	14	439,717
Other financial assets	23,624	1,961	0	25,585
Inventories	26,116	3,120	0	29,236
Net trade receivables	72,885	35,664	0	108,549
Other assets			767,054	767,054
				6,816,929
Interest-bearing liabilities	1,852,263	1,281,559		3,133,822
Other financial assets	0	46,428		46,428
Other liabilities			3,636,679	3,636,679
				6,816,929

Note 5.1. Property, plant and equipment

Movements in property, plant and equipment

	Land	Buildings	Gas transmission networks	Gas storage
Gross book value				
As at 31-12-2014	**54,398**	**153,610**	**5,318,599**	**380,570**
Investments	626	7,918	145,686	700
Subsidies	0	0	0	0
Disposals and retirements	-2,201	-90	-58,383	-4,252
Internal transfers	0	7,171	117,066	631
Changes in the consolidation scope and assets held for sale	0	0	734,511	0
Translation adjustments	296	0	139,633	0
As at 31-12-2015	**53,119**	**168,609**	**6,397,112**	**377,649**
Investments	131	1,836	39,767	413
Subsidies	0	0	0	0
Disposals and retirements	-33	-5	-10,284	-3
Internal transfers	0	4,022	24,962	502
Changes in the consolidation scope and assets held for sale	0	0	0	0
Translation adjustments	27	0	-182,214	0
As at 31-12-2016	**53,244**	**174,462**	**6,269,343**	**378,561**

In thousands of €				
LNG terminal	Other installations and machinery	Furniture, equipment & vehicles	Assets under construction & instalments paid	Total
1,042,259	**46,099**	**51,275**	**220,985**	**7,267,795**
1,524	90	4,970	65,622	227,136
0	0	0	0	0
-4	-89	-2,013	-1,765	-68,797
1,222	0	0	-126,090	0
0	0	0	0	734,511
0	0	0	-752	139,177
1,045,001	**46,100**	**54,232**	**158,000**	**8,299,822**
22,850	61	5,183	82,434	152,675
0	0	0	0	0
-7	-58	-832	-379	-11,601
77,949	0	0	-107,435	0
0	0	0	0	0
0	0	-266	24	-182,429
1,145,793	**46,103**	**58,317**	**132,644**	**8,258,467**

Movements in property, plant and equipment

	Land	Buildings	Gas transmission networks	Gas storage
Depreciation and impairment losses				
As at 31-12-2014	**0**	**-86,287**	**-2,467,597**	**-189,878**
Depreciation	0	-3,343	-184,393	-10,970
Depreciation on subsidies received	0	0	6,962	0
Disposals and retirements	0	84	47,611	2,584
Internal transfers	0	0	0	0
Changes in the consolidation scope and assets held for sale	0	0	0	0
Translation adjustments	0	0	-47,250	0
As at 31-12-2015	**0**	**-89,546**	**-2,644,667**	**-198,264**
Depreciation	0	-3,440	-250,324	-10,926
Disposals and retirements	0	0	7,310	0
Internal transfers	0	0	0	0
Changes in the consolidation scope and assets held for sale	0	0	0	0
Translation adjustments	0	0	91,645	0
As at 31-12-2016	**0**	**-92,986**	**-2,796,036**	**-209,190**
Net book values as at 31-12-2016	**53,244**	**81,476**	**3,473,307**	**169,371**
Net book values as at 31-12-2015	**53,119**	**79,063**	**3,752,445**	**179,385**

				In thousands of €
LNG terminal	Other installations and machinery	Furniture, equipment & vehicles	Assets under construction & instalments paid	Total
-709,131	**-43,162**	**-36,409**	**0**	**-3,532,464**
-24,366	-282	-4,561	0	-227,915
0	25	0	0	6,987
0	0	1,762	0	52,041
0	0	0	0	0
0	0	0	0	0
0	0	158	0	-47,092
-733,497	**-43,419**	**-39,050**	**0**	**-3,748,443**
-24,374	-94	-5,214	0	-294,372
0	0	888	0	8,198
0	0	0	0	0
0	0	0	0	0
0	0	105	0	91,750
-757,871	**-43,513**	**-43,271**	**0**	**-3,942,867**
387,922	**2,590**	**15,046**	**132,644**	**4,315,600**
311,504	**2,681**	**15,182**	**158,000**	**4,551,379**

Movements in property, plant and equipment	Land	Buildings	Gas transmission networks	Gas storage
Net book values as at 31-12-2016 of which:	53,244	81,476	3,473,307	169,371
At cost	53,244	81,476	3,473,307	169,371
At revaluation	0	0	0	0
Net book values as at 31-12-2016 of assets held under finance leases	0	0	61,987[8]	0
Supplementary information				
Net book value of assets temporarily retired from active use	110	0	0	0

Property, plant and equipment mainly comprises the group's transmission, storage (Loenhout) and LNG terminalling (Zeebrugge) facilities.

In 2016, the Fluxys Group made investments for an amount of €152.7 million. The primary investments made concern:

- Transmission facilities (€47.9 million, largely relating to the pipelines between Tessenderlo and Diest and between Houthulst and Langemark-Poelkapelle), and
- the LNG terminalling facilities (€103.9 million, largely relating to the second jetty and the transshipment project).

In relation to investments that are currently in progress or planned, the group Fluxys Belgium has commitments under Engineering, Procurement and Construction contracts for an amount of €112.6 million as at 31-12-2016.

The costs of loans activated on investments under construction amounted to €1.7 million in 2016 compared with €0.8 million in 2015. The interest rates used are based on the OLO rate in accordance with the loans concerned.

The amounts included in the changes in the consolidated scope in 2015 corresponded to the assets of Interconnector (UK) fully consolidated since 15 December 2015.

[8] Assets held under finance lease with FL Zeebrugge NV (see Note 3.4)

In thousands of €				
LNG terminal	Other installations and machinery	Furniture, equipment & vehicles	Assets under construction & instalments paid	Total
387,922	2,590	15,046	132,644	4,315,600
387,922	2,590	15,046	132,644	4,315,600
0	0	0	0	0
0	0	0	0	61,987
0	0	0	0	110

The depreciation charge for the period amounts to €294.4 million and reflects the rate at which the group expects to consume the economic benefits of the property, plant and equipment. The assets that are used within the regulated market are depreciated over their useful life, as stated in point 8 of the accounting principles (Note 2), without taking into account a residual value, given the specificity of the sector's activities. The assets of Interconnector (UK) were subjected to a prospective review of the depreciation method in 2016 to base it on expected use in order to better reflect the consumption of the economic benefits represented by these assets (see Note 4.3.5.1).

Other property, plant and equipment is depreciated over its useful life as estimated by the group, taking into account actual and potential contracts, and considering reasonable market assumptions, based on the principle of matching of revenues and costs. Given the specific nature of the activities concerned, the residual value, if any, of the facilities in question has been ignored.

At the balance sheet date, the group has identified no indication or event which would lead any item of property, plant and equipment to be considered impaired.

Note 5.2. Intangible assets

Movements in the book value of intangible assets				In thousands of €
	Software	'Sole operator of the network' assets	'Client portfolios' assets	Total
Gross book value				
As at 31-12-2014	**44,590**	**244,600**	**567,597**	**856,787**
Investments	3,319	0	0	3,319
Disposals and retirements	-10,502	0	0	-10,502
Translation adjustments	0	0	49,264	49,264
Changes in the consolidation scope	0	0	246,645	246,645
Other	0	0	0	0
As at 31-12-2015	**37,407**	**244,600**	**863,506**	**1,145,513**
Investments	3,130	0	1,485	4,615
Disposals and retirements	-7,742	0	0	-7,742
Translation adjustments	0	0	-71,159	-71,159
Changes in the consolidation scope	0	0	0	0
Other	0	0	0	0
As at 31-12-2016	**32,795**	**244,600**	**793,832**	**1,071,227**

Movements in the book value of intangible assets				In thousands of €
	Software	'Sole operator of the network' assets	'Client portfolios' assets	Total
Depreciation and impairment losses				
As at 31-12-2014	**-32,360**	**-36,984**	**-130,728**	**-200,072**
Depreciation and impairment losses	-5,984	-8,765	-36,598	-51,347
Disposals and retirements	10,425	0	0	10,425
Translation adjustments	0	0	-11,034	-11,034
Changes in the consolidation scope	0	0	0	0
Other	0	0	0	0
As at 31-12-2015	**-27,919**	**-45,749**	**-178,360**	**-252,028**
Depreciation and impairment losses	-5,507	-8,765	-115,791	-130,063
Disposals and retirements	7,728	0	0	7,728
Translation adjustments	0	0	42,476	42,476
Changes in the consolidation scope	0	0	0	0
Other	0	0	0	0
As at 31-12-2016	**-25,698**	**-54,514**	**-251,675**	**-331,887**

Movements in the book value of intangible assets	Software	'Sole operator of the network' assets	'Client portfolios' assets	In thousands of € Total
Net book value as at 31-12-2016	**7,097**	**190,086**	**542,157**	**739,340**
Net book value as at 31-12-2015	**9,488**	**198,851**	**685,146**	**893,485**

Intangible assets comprise the net book value of software and of emission rights, the value to the Fluxys Group of the nomination of Fluxys Belgium and Fluxys LNG as sole network operators as well as the value of client portfolios acquired.

The software included in intangible assets is software developed or purchased by the group which bears characteristics of an investment. This software is depreciated on a straight-line basis. Major investments during the financial year concern software developed in relation to gas flow and asset management and related administrative tools.

Business combinations in Fluxys have been realised using the acquisition method. As part of the fair value accounting of the assets acquired and liabilities assumed, the group has accounted for intangible assets which represent the value for the group of the nomination of Fluxys Belgium as the sole operator of the natural gas transmission network and storage facilities and that of Fluxys LNG as sole operator of the LNG facilities. Fluxys has also accounted for the value of client portfolios of FluxSwiss, Fluxys TENP, Interconnector (UK), GMSL and Hub business. The principal depreciation periods used for these assets are described in the accounting methods (see Note 2.7). It should be noted that the intangible asset 'HUB in Belgium' will be fully depreciated in 2023.

The amounts included in consolidation scope changes in 2015 corresponded primarily to the value of the long-term transmission contracts of Interconnector (UK), contracts which have been accounted for at fair value at the time of full consolidation of the company at the end of 2015. This asset will be fully depreciated at the end of 2018.

At the balance sheet date, the group has identified no indication or event which would lead any item of property, plant and equipment to be considered impaired.

Note 5.3. Goodwill

Goodwill		In thousands of €
	31-12-2016	31-12-2015
Goodwill FLUXYS BELGIUM SA	1,924	1,924
Total	**1,924**	**1,924**

The goodwill recorded in the group's financial statements arises from the business combination transaction realised in September 2010, the date on which Publigas has contributed its investment in Fluxys Belgium SA to Fluxys.

The amount of €1,924 thousand corresponds to the excess of the cost of the business combination with respect to the fair value of the assets, liabilities and any potential liabilities that could be identified as at 10 September 2010. It is allocated to the cash-generating unit 'regulated activities in Belgium' for the impairment test.

Note 5.4. Investments in associates and joint ventures

As at 31 December 2016, the Fluxys Group has the following investments in associates and joint ventures:

- TENP GMBH (50%),
- Dunkerque LNG (25%),
- Gaz-Opale (61.75%),
- GasBridge 2 (50%),
- TAP (19%),
- Knubbsäl/Swedegas (50%),
- Balansys (50%),
- LNG Link Investment (25%),
- Mahon Shipping (25%).

Movements in equity accounted investees		In thousands of €
	31-12-2016	31-12-2015
Equity accounted investees – opening balance	**439,717**	**553,162**
Investments and transfers	0	98,167
Share in the total comprehensive result	-9,621	18,925
Dividends paid	-9,444	-33,394
Changes in the consolidation scope	0	-273,253
Translation adjustments	-3,115	0
Capital increases	82,651	76,110
Other	0	0
Equity accounted investees – closing balance	**500,188**	**439,717**

The investments in 2015 corresponded to the holdings acquired in Knubbsäl, Balansys, LNG Link Investment and Mahon Shipping.

The variation in the share in the total comprehensive result[9] and the changes in consolidation scope in 2015 corresponded essentially to the exit of Interconnector (UK) from investments in associates as at 15-12-2015. This company is since then fully consolidated.

The capital increases mainly corresponded in 2016, as in 2015, to the group's current account conversion into capital vis-à-vis Dunkerque LNG and to the capital increases in TAP.

Note 5.5. Other financial assets

Other financial assets			In thousands of €
	Notes	31-12-2016	31-12-2015
Shares at cost	5.5.1	2,818	899
Investment securities at fair value through profit or loss	5.5.2/6	56,934	23,046
Other financial assets at fair value	5.5.3/6	2,425	0
Other financial assets at cost		233	713
Total		**62,410**	**24,658**

5.5.1. The acquisition of a participation of 7.67% in BoostHEAT explains the increase in this item (see Note 3.1).

The shares in companies which have activities that are of interest to the Fluxys Group are held with the intention of keeping them for the long term without being able to exercise significant control or influence. These shares are not listed on an active market. They are valued at the cost of acquisition.

[9] The net result of Interconnector (UK) in 2015 was 26 M€.

5.5.2. Investment securities at fair value through profit or loss relate to cash investments in bonds or commercial paper with a maturity longer than one year. They are mainly from Flux Re of which the cash is destined to cover the risk of the entity in the scope of its reinsurance business. The maturity of these investments is between 2019 and 2026.

5.5.3. As at 31-12-2016, the other financial assets at fair value primarily concern financial instruments entered into with a view to covering the risk incurred by the group with respect to GBP rates. As at 31-12-2015, the value of these latter was negative and appeared on the liability side of the balance sheet (see items 'Other financial liabilities' and Note 6).

Note 5.6. Loans, receivables and other non-current assets

Non-current loans and receivables			In thousands of €
	Notes	**31-12-2016**	**31-12-2015**
Regulatory assets	5.6.1	0	13,736
Non-current loans	5.6.2	119,953	137,298
Calls for funds and others	5.6.3	212,424	122,572
Total		**332,377**	**273,606**

5.6.1. This item included the regulatory receivable that arose in 2010 following the closure of the peak-shaving plant at Dudzele as well as that relating to the NEL facilities fully commissioned in November 2013. These were fully recovered in 2016.

5.6.2. Interconnector (UK) has subscribed to the bonds of F L Zeebrugge, the final maturity of which is November 2025. These bonds have a fixed interest rate.

5.6.3. Dunkerque LNG and TAP call for funds to shareholders as part of their respective construction projects.

Other non-current assets			In thousands of €
	Notes	31-12-2016	31-12-2015
Plan asset surpluses 'IAS 19 Employee benefits'	5.14	20,200	26,105
Prepaid insurance expenses	5.6.4	5,906	7,592
Total		**26,106**	**33,697**

5.6.4. Fluxys LNG is insured with Credendo against certain risks incurred as part of the transshipment project. This insurance is in effect until 2021.

The part of this premium that has been paid and is not past due is included under this item for the part that is due in more than one year whilst the part that is due within the year is included in the item 'Other current assets' (see Note 5.10.1).

Maturity of non-current loans and receivables at 31-12-2016			In thousands of €
	Between one and five years	More than five years	Total
Non-current loans	39,500	80,453	119,953
Calls for funds and others	212,424	0	212,424
Total	**251,924**	**80,453**	**332,377**

Maturity of non-current loans and receivables at 31-12-2015			In thousands of €
	Between one and five years	More than five years	Total
Regulatory assets	13,736	0	13,736
Non-current loans	49,367	87,931	137,298
Calls for funds and others	122,572	0	122,572
Total	**185,675**	**87,931**	**273,606**

Note 5.7. Inventories

Book value of inventories	In thousands of €	
	31-12-2016	31-12-2015
Supplies	**12,932**	**17,928**
Gross book value	20,124	25,652
Impairment losses	-7,192	-7,724
Goods held for resale	**11,050**	**10,995**
Gross book value	11,055	12,477
Impairment losses	-5	-1,482
Work in progress	**104**	**313**
Gross book value	104	313
Impairment losses	0	0
Total	**24,086**	**29,236**

Inventories of materials connected to the transmission network declined due to their use in investment and maintenance projects in 2016.

The impairment loss on natural gas stocks was reversed following the change of the market value at the end of the financial year.

Impact of movements on net profit/loss	In thousands of €	
	31-12-2016	31-12-2015
Inventories – purchased or used	-7,159	-2,975
Impairment losses	2,009	-537
Total	**-5,150**	**-3,512**

Note 5.8. Trade and other receivables

Trade and other receivables			In thousands of €
	Notes	31-12-2016	31-12-2015
Gross trade receivables		135,928	111,386
Impairment losses		-2,848	-2,837
Net trade receivables	5.8.1	**133,080**	**108,549**
Other receivables		34,666	24,248
Total		**167,746**	**132,797**

5.8.1. The Fluxys Group reduces its exposure to credit risk, both in terms of default and concentration of risk, by requiring short payment terms from its customers, a strict policy for the follow-up of trade receivables, and a systematic evaluation of its counterparties' financial position (see Note 6).

Trade receivables can be broken down as follows according to their ageing:

Net trade receivables according to ageing		In thousands of €
	31-12-2016	31-12-2015
Receivables not past due	130,204	105,989
Receivables < 3 months	2,800	2,493
Receivables 3 - 6 months	0	0
Receivables > 6 months	9	0
Receivables in litigation or doubtful	67	67
Total	**133,080**	**108,549**

Disputed or doubtful receivables mainly concern grid users.

The majority of these receivables were subject to impairment losses of 100%.

Note 5.9. Short-term investments, cash and cash equivalents

Short-term investments are investments with a maturity of more than three months and maximum one year in bonds, commercial paper and bank deposits.

Cash and cash equivalents are mainly investments in commercial paper that mature within a maximum of three months after the date of acquisition, term deposits at credit institutions, current account bank balances and cash in hand.

Short-term investments, cash and cash equivalents		In thousands of €
	31-12-2016	31-12-2015
Short-term investments	**105,348**	**121,937**
Cash and cash equivalents	**280,084**	**291,920**
Cash equivalents	46,437	55,386
Short-term deposits	49,110	80,642
Bank balances	184,511	155,874
Cash in hand	26	18
Total	**385,432**	**413,857**

The share of the cash and cash equivalents, the use of which is conditional on finance agreements, is €46.4 million as at 31 December 2016 compared to €55.4 million as at 31 December 2015.

Note 5.10. Other current assets

Other current assets			In thousands of €
	Notes	31-12-2016	31-12-2015
Accrued income		2,390	2,291
Prepaid expenses		17,417	14,392
Other current assets	5.10.1	1,621	2,175
Total		**21,428**	**18,858**

Other current assets mainly comprise prepaid expenses amounting to €17,417 thousand (insurance, rent, etc.) as well as various items of accrued income to be cashed.

5.10.1. Other current assets for their part include the short-term share of the plan asset surpluses compared with the actuarial debt relating to the group's pension liabilities (see Notes 5.6 and 5.14).

Note 5.11. Equity

Publigas established the public limited company Fluxys on 12 July 2010, into which it transferred its stake (89.97%) in Fluxys Belgium SA on 10 September 2010.

On 30 March 2011, Caisse de dépôt et placement du Québec acquired a 10% stake in Fluxys SA, by means of a €150 million capital increase.

On 28 November 2011, Fluxys carried out a second capital increase of €300 million.

In 2012, 2013, 2015 and 2016 Fluxys carried out capital increases for a total amount of €148.5 million, of which €34.7 million uncalled. As a result of these capital increases the Société Fédérale de Participations et d'Investissement (SFPI) has entered the capital of Fluxys as well as the employees and management of the group.

As at 31 December 2016, Fluxys' shareholder structure was as follows:

- 77.62%: Publigas
- 19.94%: Caisse de dépôt et placement du Québec
- 2.13%: SFPI
- 0.31%: Employees and management

These capital increases fall within the group's objective to maintain a solvency ratio of at least a third of equity.

Non-controlling interests amount to €598,244 thousand, representing the 10.03% stake held by minority shareholders in Fluxys Belgium SA and its subsidiaries (€82,215 thousand); the 49.35% in FluxSwiss (€257,182 thousand), as well as the 49.25% in Interconnector (UK) (€249,617 thousand).

Note on parent entity shareholding

	Ordinary shares	Preferential shares	Total
I. Movements in number of shares			
1. Number of shares, opening balance	86,680,509	0	**86,680,509**
2. Number of shares issued	122,665	0	**122,665**
3. Number of ordinary shares cancelled or reduced (-)	0	0	0
4. Number of preference shares cancelled or reduced (-)	0	0	0
5. Other increase (/ decrease)	0	0	0
6. Number of shares, closing balance	86,803,174	0	**86,803,174**

II. Other information			
1. Face value of shares	No face value mentioned		
2. Number of shares owned by the company	0	0	**0**
3. Interim dividends during the financial year	0	0	**0**

Note 5.12. Interest-bearing liabilities

Non-current interest-bearing liabilities			In thousands of €
	Notes	**31-12-2016**	**31-12-2015**
Finance leases	5.12.1	123,750	132,728
Bonds	5.12.2	944,233	1,200,516
Other borrowings	5.12.3	972,901	967,346
Other financing	5.12.4	102,953	112,154
Other liabilities	5.12.5	399,675	367,753
Joint arrangements	5.12.6	60,409	59,801
Total		**2,603,921**	**2,840,298**
Of which debts guaranteed by the public authorities or by actual sureties		0	0

Current interest-bearing liabilities			In thousands of €
	Notes	**31-12-2016**	**31-12-2015**
Finance leases	5.12.1	7,963	8,249
Bonds	5.12.2	285,497	0
Other borrowings	5.12.3	241,246	247,764
Other financing	5.12.4	4,423	2,046
Other liabilities	5.12.5	34,138	35,465
Total		**573,267**	**293,524**
Of which debts guaranteed by the public authorities or by actual sureties		0	0

5.12.1. Interconnector (UK) entered into a fixed-rate financial lease which matures in 2026. This contract concerns the Zeebrugge compression facilities.

5.12.2. Fluxys Belgium issued a bond in April 2012 for a total face value of €350 million. The bonds offer a gross annual coupon value of 4.25 % and mature in 2018.

In June 2011, Fluxys Finance placed a bond for a face value of €300 million. The bonds have a term of six years and offer an interest rate of 4.577 %.

Fluxys Belgium made a private placement of bonds at the end of November 2014, for a total face value of €350 million.

This private placement is split up in two instalments:

- an instalment of €250 million with a term of 15 years with a price fixed at 2.802% and expiring in November 2029.
- an instalment of €100 million with a term of 20 years with a price fixed at 3.29% and expiring in November 2034.

Fluxys Finance completed bond issues in the form of European Private Placements over the course of the months of December 2015 and January 2016 for a total of €250 million. An amount of €150 million was issued for a duration of 30 years and the balance was issued for a duration of 20 years.

These transactions enabled Fluxys to diversify the duration of its financing under advantageous conditions.

5.12.3. Other borrowings included as at 31-12-2016:

- a 10-year loan of €8.5 million at a fixed annual interest rate of 4.747% contracted with the European Investment Bank (EIB) in August 2007 for the financing of the capacity enhancement at the Zeebrugge LNG terminal.
- a 25-year loan of €346.0 million at a fixed rate contracted with the EIB in December 2008 to finance investments in developing the gas transmission network,
- Loans taken out by FluxSwiss and Transitgas the balance of which was €423.5 million as at 31-12-2016. Interest rate swaps were entered into to convert the variable interest rate of certain loans into fixed interest rates.
- Loans taken out by TENP KG the balance of which was €141.2 million as at 31-12-2016.
- A 5-year loan taken out by Interconnector (UK), the balance of which was €64.0 million as at 31-12-2016. Interest rate swaps were entered into to convert the variable interest rate of certain loans into fixed interest rates.
- A fixed-rate loan taken out by Fluxys Finance of €150.0 million for a duration of 5 years.
- Short term loans and pro rata interest for the balance.

5.12.4. Other financing corresponds to the amount at the group's disposal to finance firstly the construction of the second jetty at Zeebrugge and secondly the cost associated with the conversion of part of the gas transmission network. Part of these amounts bears interest at a 10-year rate and the remainder at the average 1-year Euribor rate.

5.12.5. Regulatory liabilities included in 'other liabilities' represent the positive difference between the invoiced regulated tariffs and the acquired regulated tariffs. The share of tariffs listed as non-current liabilities corresponds to the regulatory liabilities to be used in more than one year's time, while the share to be used within the year is listed as current liabilities. These amounts bear interest.

5.12.6. These amounts correspond to contributions into the joint operations Transitgas and TENP KG by the joint operators. They arise from the fact that the integration percentages of these joint operations are not based on participations in these companies but are based on the rights attached to the assets and obligations for the liabilities incurred by the group in accordance with the capacity reserved in the installations.

Maturity of interest-bearing liabilities at 31-12-2016				In thousands of €
	Up to one year	Between one and five years	More than five years	Total
Finance leases	7,963	50,164	73,586	131,713
Bonds	285,497	348,150	596,083	1,229,730
Other borrowings	241,246	566,727	406,174	1,214,147
Other financing	4,423	23,900	79,053	107,376
Other liabilities	34,138	212,792	186,883	433,813
Joint arrangements		60,409	0	60,409
Total	**573,267**	**1,262,142**	**1,341,779**	**3,177,188**

Supplementary information				
Finance leases:				
Present value of minimum payments at market rate	16,194	77,974	90,737	184,905
Total minimum leases payments (A)	14,326	70,702	83,000	168,028
Interest (B)	6,363	20,538	9,414	36,315
Total finance leases (A-B)	7,963	50,164	73,586	131,713

Maturity of interest-bearing liabilities at 31-12-2015				In thousands of €
	Up to one year	One to five years	More than five years	Total
Finance leases	8,249	58,639	74,089	140,977
Bonds	0	631,098	569,418	1,200,516
Other borrowings	247,764	641,448	325,898	1,215,110
Other financing	2,046	23,155	88,999	114,200
Other liabilities	35,465	214,302	153,451	403,218
Joint arrangements	0	59,801	0	59,801
Total	**293,524**	**1,628,443**	**1,211,855**	**3,133,822**

Supplementary information				
Finance leases:				
Present value of minimum payments at market rate	15,028	92,174	94,938	202,140
Total minimum leases payments (A)	13,500	87,208	87,184	187,892
Interest (B)	5,251	28,569	13,095	46,915
Total finance leases (A-B)	8,249	58,639	74,089	140,977

Note 5.13. Provisions

5.13.1 Provisions for employee benefits

Provisions for employee benefits	In thousands of €
Provisions at 31-12-2015	**66,809**
Additions	10,050
Use	-9,343
Release	0
Unwinding of the discount	4,254
Actuarial gains/losses recognised in the profit/loss (seniority bonuses)	-592
Expected return on plan assets	-3,500
Actuarial gains/losses recognised in equity	10,169
Reclassification of the asset	-6,459
Foreign exchange effect	35
Provisions at 31-12-2016, of which:	**71,423**
Non-current provisions	66,811
Current provisions	4,612

The provisions for employee benefits not pre-funded are up, mainly as a result of the reduction in the discount rates used in 2016 1.03% over 10 years and 1.55% over 17 years) compared with 2015 (1.96%).

Defined benefit pension plans have surplus plan assets compared with the actuarial liability on estimated liabilities of the group at 31-12-2016.

The amount was therefore transferred to the assets in the balance sheet under 'Other non-current assets' (see Note 5.6) and 'Other current assets' (see Note 5.10.1).

These provisions are set out in detail in Note 5.14. These surpluses are recovered over the duration of the pension plans.

5.13.2. Other provisions

Provisions for:	Litigation and claims	Environment and site restoration	In thousands of € Total other provisions
Provisions at 31-12-2015	**13,160**	**18,924**	**32,084**
Additions	34	367	401
Use	-6,923	-67	-6,990
Release	0	0	0
Unwinding of the discount	0	735	735
Foreign exchange effect	-631	121	-510
Changes in the consolidation scope	0		0
Other changes	0		0
Provisions at 31-12-2016, of which:	**5,640**	**20,080**	**25,720**
Non-current provisions	5,640	13,239	18,879
Current provisions	0	6,841	6,841

In 2016, Interconnector (UK) settled the pending tax disputes. The provisions for these were fully used up with a view to covering the amounts paid out. The other uses during the financial year mainly concerned the final gas balance sheet account for FluxSwiss.

5.13.3. Movements in the income statement and maturity of provisions

Movements in the income statement and maturity of provisions are distributed as follows:

Impact			In thousands of €
	Additions	Use and reversals	Total
Profit (loss) from continuing operations	10,451	-16,333	-5,882
Financial profit (loss)	4,397	-3,500	897
Total	**14,848**	**-19,833**	**-4,985**

Maturity of provisions at 31-12-2016				In thousands of €
	Up to one year	Between one and five years	More than five years	Total
Litigation and claims	0	3,203	2,437	5,640
Environment and site restoration	6,841	0	13,239	20,080
Subtotal	**6,841**	**3,203**	**15,676**	**25,720**
Employee benefits	4,612	22,793	44,018	71,423
Total	**11,453**	**25,996**	**59,694**	**97,143**

Maturity of provisions at 31-12-2015				In thousands of €
	Up to one year	Between one and five years	More than five years	Total
Litigation and claims	0	7,587	5,573	13,160
Environment and site restoration	6,503	0	12,421	18,924
Subtotal	**6,503**	**7,587**	**17,994**	**32,084**
Employee benefits	3,621	14,301	48,887	66,809
Total	**10,124**	**21,888**	**66,881**	**98,893**

Discount rate

Long-term provisions are discounted systematically based on interest rates that have changed as follows, according to time frame:

Discount rate		
	31-12-2016	31-12-2015
Between one and five years	0.13%	0.65%
Between six and nine years	0.89%	0.95%
Between ten and twelve years	1.03%	1.96%
Over twelve years	1.55%	1.96%

Provisions for litigation and claims

These provisions have been established to cover potential litigation payments arising for instance from the construction of the Zeebrugge LNG terminal (1983), and Transitgas.

The estimation for these provisions are based on the value of claims filed or on the estimated amount of risk incurred.

Provisions for the environment and site restoration

These provisions essentially cover the costs of decommissioning, safety, clean-up and restoration of sites subject to closure.

In Belgium, these provisions come under the regional environmental legislative framework and the Gas Act. The obligations covered by these provisions require action plans and numerous studies in cooperation with the various public authorities and the institutions established for this purpose.

Note 5.14. Provisions for employee benefits

Description of the principal retirement schemes and related benefits

In Belgium collective labour agreements regulate the rights of employees in the electricity and gas industries.

Defined benefit pension plans

These agreements cover 'non exempt population' recruited before 1 June 2002 and management personnel recruited before 1 May 1999 allowing affiliates to benefit from a capital calculated based on a formula that takes account of their final annual salary and the number of years of service when they leave or retire. These retirement schemes are referred to as defined benefit pension plans.

Obligations under these defined contribution pension plans are funded through a number of pension funds for the electricity and gas industries and through insurance companies.

Employees and employers contribute to these pension plans. The employer's contribution is determined annually on the basis of an actuarial report. This is to ensure that the minimum legal funding requirements have been met and that the long-term funding of the benefits is assured.

Description of the main actuarial risks

The group is exposed, in connection with its defined benefit pension plans, to risks related to actuarial assumptions concerning investments, interest rates, life expectancy and salary development.

The present value of defined benefit obligations is determined using a Discount rate based on high-quality bonds.

Each year, the discount rate used to calculate obligations for financing pension liabilities and minimum financing requirements is compared with the expected return on plan assets. The latter is obtained from the risk-free rate observed on the financial markets at the balance sheet date, the risk premiums for each category of assets in the portfolio and their corresponding volatility.

The assumptions concerning salary increases, inflation, personnel movements and expected average retirement age are defined based on historic entity statistics. The mortality tables used as those published by the IABE (Institute of Actuaries in Belgium).

Defined benefit pension plans have surplus plan assets compared with the actuarial liability on estimated liabilities of the group at 31-12-2016. The amount was therefore transferred to the assets in the balance sheet under 'Other non-current assets' and 'Other current assets'. These surpluses will be gradually recovered through a reduction in future contributions to be paid.

Defined contribution pension plans with guaranteed minimum return

In Belgium, 'non exempt population' recruited after 1 June 2002 and management staff recruited after 1 May 1999 as well as the members of the management benefit from defined contribution pension plans. Other companies in the group also grant this type of benefit to certain categories of staff.

The pension plans are financed by contributions from employees and employers, the latter corresponding to a multiple of the contributions from employees. In Belgium, obligations under these defined contribution pension plans are funded through a number of pension funds for the electricity and gas industries and through insurance companies.

The assets of the pension funds are allocated among the various categories of the following risks:

- Low risk: bonds in the euro zone and/or high-quality bonds.
- Medium risk: risk diversification between bonds, convertible bonds, real estate and equity instruments.
- High risk: equity instruments, real estate, etc.
- Dynamic Asset Allocation: rapid adjustment of the portfolio structure in case specific events in order to limit losses in periods of stress.

Belgian law requires that the employer guarantees a minimum return for defined contribution, which varies based on the market rates.

The minimum returns guaranteed by the employer are the following:

- For contributions paid since 01-01-2016, the minimum return is variable based on OLO rates, with a minimum of 1.75% and a maximum of 3.75%. Given the current rates, this minimum return guaranteed has been initially set at 1.75%.
- For contributions paid up until 31-12-2015, the minimum return of 3.25% for employer contributions and 3.75% for employee contributions applies up to that date. Since 01-01-2016, the minimum return is calculated as mentioned in the previous paragraph.

The accounting method used by the group to value these ‘defined contribution pension plans, with a guaranteed minimum return’, is identical to the method used for ‘defined benefit plans’ (see Note 2.16).

Description of the main risks

Defined contribution plans expose the employer to the risk of a minimum return on pension fund assets that do not offer a sufficient guaranteed return.

Other long-term employee benefits

Fluxys Group also has other pension benefits, early pension schemes, other post-employment benefits such as reimbursement of medical expenses and tariff reductions, as well as other long-term benefits (seniority payments). Not all of these benefits are funded.

Financial status of the employee benefits

In thousands of €	Pensions *		Other **	
	2016	**2015**	**2016**	**2015**
Present value of funded obligations	-200,907	-143,165	-54,412	-55,763
Fair value of plan assets	205,717	160,399	0	0
Funded status of plans	**4,810**	**17,234**	**-54,412**	**-55,763**
Impact on minimum funding requirement/effect of the asset ceiling	0	0	0	0
Other	0	0	0	0
Net employee benefit liability	**4,810**	**17,234**	**-54,412**	**-55,763**
Of which assets	21,821	28,280	0	0
Of which liabilities	-17,011	-11,046	-54,412	-55,763

** Pensions also include non-prefinanced early-retirement obligations.*

*** The item 'Other' includes seniority bonuses as well as other post-employment benefits (reimbursement of medical expenses and tariff reductions)*

Movements in the present value of obligations

In thousands of €	Pensions *		Other **	
	2016	2015	2016	2015
At the start of the period	**-143,165**	**-145,587**	**-55,763**	**-61,051**
Transfer of defined contribution plans with a guaranteed minimum return	-23,166[10]	-12,326[11]	0	0
Service costs	-6,925	-4,950	-1,601	-2,188
Early retirement costs	-1,056	12	0	0
Financial loss (-) / profit (+)	-3,270	-2,193	-984	-866
Participant's contributions	-1,509	-924	0	0
Change in demographic assumptions	1,371	2,899	176	-626
Change in financial assumptions	-28,871	6,166	-4,212	2,374
Change from experience adjustments	-1,115	4,119	6,308	5,002
Past service costs	0	0	0	0
Benefits paid	6,924	9,638	1,664	1,592
Other	-125	-19	0	0
At the end of the period	**-200,907**	**-143,165**	**-54,412**	**-55,763**

[10] Belgium: defined contribution plans with a guaranteed minimum return, presented as defined benefit plans from 2016.
[11] Switzerland: pension plans presented as defined benefit plans from 2015.

Movements in the fair value of plan assets

In thousands of €	Pensions *		Other **	
	2016	2015	2016	2015
At the start of the period	**160,399**	**153,358**	**0**	**0**
Transfer of defined contribution pension plans, with a guaranteed minimum return	23,166	12,326	0	0
Interest income	3,500	2,285	0	0
Return on plan assets (excluding net interest income)	16,766	-4,719	0	0
Employer's contributions	7,211	5,863	1,664	1,592
Participants' contributions	1,509	924	0	0
Benefits paid	-6,924	-9,638	-1,664	-1,592
Other	90	0	0	0
At the end of the period	**205,717**	**160,399**	**0**	**0**
Actual return on plan assets	**20,266**	**-2,434**	**0**	**0**

In Belgium, defined contribution plans with a minimum guaranteed return are valued and accounted for using the method used for defined benefit plans. Since 1 January 2016 they are included in the aforementioned tables.

They have been introduced through a transfer item in 2016 without amending the figures published in 2015, which affects the comparison of figures between the two financial years.

Costs recognised in profit or loss

In thousands of €	Pensions *		Other **	
	2016	2015	2016	2015
Cost				
Service costs	-6,925	-4,950	-1,601	-2,188
Early retirement costs	-1,056	12	0	0
Past service costs	0	0	0	0
Actuarial gains/(losses) on other long-term benefits	0	0	592	2,404
Net interest on net liabilities/(assets)				
Interest expense on obligations	-3,270	-2,193	-984	-866
Interest income on plan assets	3,500	2,285	0	0
Costs recognised in profit or loss	**-7,751**	**-4,846**	**-1,993**	**-650**

Actuarial losses (gains) recognised in other comprehensive income

In thousands of €	Pensions *		Other **	
	2016	2015	2016	2015
Change in demographic assumptions	1,371	2,899	176	-626
Change in financial assumptions	-28,871	6,166	-4,804	-30
Change from experience adjustments	-1,115	4,119	6,308	5,002
Return on plan assets (excluding net interest income)	16,766	-4,719	0	0
Actuarial losses (gains) recognised in other comprehensive income	**-11,849**	**8,465**	**1,680**	**4,346**

Allocation of obligation by type of participant to the plan

In thousands of €	2016	2015
Active plan participants	-220,521	-166,014
Non-active participants with deferred benefits	-4,447	-3,494
Retirees and beneficiaries	-30,351	-29,420
Total	**-255,319**	**-198,928**

Allocation of obligation by type of benefit

In thousands of €	2016	2015
Retirement and death benefits	-200,907	-143,165
Other post-employment benefits (medical expenses and tariff reductions)	-33,203	-33,165
Seniority bonuses	-21,209	-22,598
Total	**-255,319**	**-198,928**

Main actuarial assumptions used

	2016	2015
Discount rate between 10 to 12 years	1.03 %	1.96 %
Discount rate over 12 years	1.55 %	1.96 %
Expected average salary increase	1.75 %	2.00 %
Expected inflation	1.75 %	1.75 %
Expected increase in health expenses	2.75 %	2.75 %
Expected increase of tariff advantages	1.75 %	1.75 %
Average assumed retirement age	63(EMPL.)/65(EXEC.)	63
Mortality tables	Prospective IABE	Prospective IABE
Life expectancy in years:		
For a person aged 65 at the balance sheet date:		
- Male	20	20
- Female	24	24
For a person aged 65 in 20 years:		
- Male	22	22
- Female	26	26

The discount rate of the plans depends on their estimated average duration.

The fair value of plan assets per major category

	2016	2015
Listed investments	**88.33 %**	**78.62 %**
Shares - eurozone	20.87 %	17.33 %
Shares - outside eurozone	25.77 %	13.72 %
Government bonds - eurozone	0.92 %	5.00 %
Other bonds - eurozone	21.24 %	33.16 %
Other bonds - outside eurozone	19.53 %	9.41 %
Non-listed investments	**11.67 %**	**21.38 %**
Insurance contracts	0.04 %	1.91 %
Real estate	4.70 %	3.91 %
Cash and cash equivalents	0.07 %	2.48 %
Other	6.86 %	13.08 %
Total (in %)	**100.00 %**	**100.00 %**
Total (in thousands of €)	**205,717**	**160,399**

Sensitivity analysis

Impact on obligation	In thousands of €
	Increase (-) / Decrease (+)
Increase in discount rate (0.5%)	14,508
Average salary increase - Excluding inflation (0.5%)	-17,973
Increase in inflation rate (0.25%)	-7,203
Increase in healthcare benefits (1%)	-5,510
Increase in tariff benefits (0.5%)	-1,646
Increase in life expectancy of retirees (1 year)	-1,856

Average weighted duration of obligations

	2016	2015
Average weighted duration of defined benefit obligations	10	13
Average weighted duration of other obligations	17	13

Expected contribution to pay for the defined benefit plans

	In thousands of €
Expected contribution in 2017	6,213

Expected contribution to pay for the defined contribution plans with a guaranteed minimum return

	In thousands of €
Contribution paid in 2016 (in Belgium)	2,625
Contribution expected in 2017 (in Belgium)	2,581

Contributions to be paid for defined contribution pension plans are based on changes in the payroll of the concerned population.

Plan assets with insurance companies

Certain contributions were deposited by the group in insurance companies which guaranteed a minimum return plus financial participations on these contributions (class 21). These plan assets were transferred in 2016 to pension funds and class 23 with insurance companies. Future contributions will be made in accordance with this new policy.

Note 5.15. Deferred tax assets and liabilities

Recognised deferred tax liabilities		In thousands of €
	31-12-2016	31-12-2015
Valuation of assets	653,792	751,765
Accrued income	3,028	3,882
Fair value of financial instruments	-2,980	-8,829
Provisions for employee benefits or provisions not accounted for under IFRS	28,836	35,083
Other normative differences	5,659	10,849
Total	**688,335**	**792,750**

Deferred tax assets and liabilities are offset within each taxable entity.

Deferred tax is primarily influenced by the difference between the book value and the tax base of property, plant and equipment and intangible assets. This difference comes from the fair value accounting of property, plant and equipment and intangible assets within the scope of business combination transactions (IFRS 3).

Provisions made in accordance with IAS 19 (Employee benefits) and provisions recognised under local GAAP but not recognised under IFRS are another major source of deferred tax.

Finally, the valuation at fair value of financial instruments also generates deferred tax accounting. The financial instruments concerned are interest rate swaps and foreign currency futures. Reference is made to the Note on financial instruments for more information on this subject.

The deferred tax liabilities have been revised downwards in 2016 following the adoption of new tax rates which will be applicable in England and Luxembourg (see Note 4.7.2).

All deferred tax assets and liabilities are recognised, except for unrecognised deferred tax liabilities calculated on the results reported by subsidiaries.

Movement for the period		In thousands of €
	Notes	Deferred tax
Total income tax expense deferred as at 31-12-2015		**792,750**
Deferred tax expenses – Profit & loss account	4.7.2	-79,226
Deferred tax expenses – other comprehensive income		-973
Business combinations		0
Changes in the consolidation scope		0
Translation adjustments		-24,216
Other		0
Total income tax expense deferred as at 31-12-2016		**688,335**

Note 5.16. Trade and other liabilities

Trade and other liabilities		In thousands of €
	31-12-2016	31-12-2015
Trade payables	82,443	55,986
Payroll and related items	32,921	32,066
Other payables	17,258	28,275
Total	**132,622**	**116,327**

The increase in trade debts can primarily be explained by the invoices yet to be received relating to current investments in the Zeebrugge LNG Terminal as well as by the temporary increase in trade payables for Transitgas.

Note 6. Financial instruments

Principles for managing financial risks

In the course of conducting its activities, the Fluxys Group is exposed to credit and counterparty risks, liquidity and interest rate risks and foreign exchange and market risks, all of which affect its assets and liabilities.

The group's administrative organisation, controlling and financial reports ensure that these risks are constantly monitored and managed.

The group may only use financial instruments for hedging, and not for speculative or trading purposes. All transactions are intended to meet the group's liquidity needs: no transaction may be entered into for the sole purpose of earning a speculative gain.

Cash management policy

The Fluxys Group's cash is managed as part of a general policy that was approved by the Board of Directors.

The objective of this policy is to optimise the group’s cash positions, through internal transfers allowing especially the group’s projects to be financed. Transactions are entered into at market terms and conditions.

In case of need, the group can borrow on a short- medium- or long-term basis to respond to its cash needs.

Cash surpluses are largely allocated to the operational needs and to development projects of the Fluxys Group’s companies. These investments are subject to constant monitoring and risk analysis on a case-by-case basis.

Cash surpluses other than those referred to above are kept either at first class financial institutions or invested in financial instruments issued by entities with a high credit rating or in financial instruments of issuers which are covered by a guarantee from a European Member State or whose share capital is predominantly controlled by state-owned entities. Cash surpluses are invested following a competitive bidding award, and in instruments that are sufficiently diversified to limit counterparty risk concentration.

At 31-12-2016, current and non-current investments, cash and cash equivalents amounted to €442,366 thousand, compared with €436,903 thousand at 31-12-2015.

Certain financing agreements however provide for maintaining a minimum level of cash and cash equivalents in the companies concerned for a total of €46.4 million as at 31 December 2016 compared with €55.4 million as at 31 December 2015.

Credit and counterparty risks

The group systematically assesses its counterparties' financial capacity and systematically monitors receivables. Group policy regarding counterparty risks requires that the group submits potential customers and suppliers to a detailed preliminary financial analysis (liquidity, solvency, profitability, reputation and risks). The group uses internal and external information sources, such as official analysis performed by rating agencies (Moody's, Standard & Poor's and Fitch). These rating agencies assess entities in relation to risk and award them a credit score. The group also uses databases containing general, financial and market information to complement its own evaluation of potential customers and suppliers.

In addition, for most of its activities the group is allowed to contractually require guarantees (either bank guarantees or cash deposits) from counterparties. The group thereby reduces its exposure to credit risk both in terms of default and concentration of customers.

In view of the concentration risk it must be noted that three clients contribute 54% to the operating revenue.

Foreign exchange risk

The currency used by the group is the euro.

Group policy requires that all foreign currency assets and liabilities are hedged. Residual foreign currency positions may remain open for short periods, provided that they involve the group's main currencies.

The group is exposed to CHF/EUR currency fluctuation risks primarily because of its stake in FluxSwiss. This net investment in a Swiss business has been hedged through currency forward contracts. These financial instruments are qualified as hedging instruments. The variation in value of these latter has a direct impact on equity.

Intragroup loans to our subsidiaries in Switzerland and the UK are covered either through cross currency interest rate swaps or currency forward contracts. These instruments are a natural hedge for the risk incurred by the group with regard to CHF/EUR and GBP/EUR currency fluctuations. The variation in value of these latter instruments is accounted for in the profit/loss for the period.

The group is exposed to SEK/EUR currency fluctuation risks because of its holding in Swedegas. This net investment in business in Sweden has been hedged through currency forward contracts. These financial instruments are qualified as hedging instruments. The variation in value of these latter has a direct impact on equity.

The group is also exposed to USD/EUR currency fluctuation risks primarily because of its stake in LNG Link Investment AS. This net investment in a Norwegian business has been hedged through currency forward contracts. These financial instruments are qualified as hedging instruments. The variation in value of these latter has a direct impact on equity.

The fair value of hedging instruments for 'CHF','SEK' and 'USD' is recorded in the assets of the balance sheet under the item 'other financial assets' for €861 thousand as at 31-12-2016 compared with €927 thousand as at 31-12-2015 and under the liabilities of the balance sheet under the item 'other financial liabilities' for €2,943 thousand as at 31-12-2016 compared with €12,882 thousand as at 31-12-2015. The notional amounts covered as at 31-12-2016 come respectively to CHF 144.4 million; SEK 795.3 million and USD 3.3 million compared with CHF 153.4 million, SEK 894.3 million and USD 1.3 million as at 31-12-2015 whilst the maturities are between 2017 and 2026.

Sensitivity analysis:
Outside hedging instruments, a 10% variation in the CHF exchange rate would have an impact in 2016 of €24.6 million on equity, while a 10% variation in the GBP exchange rate would have an impact of €13.6 million on equity attributable to the parent company's shareholders. This impact is determined based on the net assets of the companies concerned on the balance sheet date.

Interest rate risk

The group's debt is €3,177,188 thousand as at 31-12-2016 compared with €3,133,822 thousand as at 31-12-2015. It mainly consists of loans which mature between 2017 and 2045 (see Note 5.12).

Loans taken out by FluxSwiss, Transitgas, and Interconnector (UK), as well as part of TENP KG's loans are financed with variable rates over the short term.

In order to manage this risk exposure, the companies have interest rate swap contracts destined to exchange this variable rate for a fixed rate. These financial instruments are qualified as hedging instruments. The variation in value of these latter has a direct impact on equity insofar as it concerns the effective part of the hedge. It is worthy to note that the interest rates to be paid on Swiss debts have a minimum rate of 0%, which is not reflected in the current IRS hedging (see Note 10).

The part of these hedging financial instruments qualified as ineffective has therefore been recognised in the financial results (see Note 4.5.1).

The fair value of these financial instruments is included in the liabilities of the balance sheet under the item 'other financial liabilities' and comes to €20,037 thousand as at 31-12-2016 compared with €27,697 thousand as at 31-12-2015. The notional amount covered comes to CHF 430.9 million; GBP 54.8 million and EUR 72.3 million as at 31-12-2016 whilst maturity is between 2017 and 2024.

In addition, the group's interest-bearing liabilities include liabilities to be used within the regulatory framework. These latter bear interest. The group does not incur any interest rate risks related to this.

Sensitivity analysis:
Outside hedging instruments, a variation of 100 base points in interest rates on financing would have an impact on financial results in 2016 of €2.1 million compared with €2.4 million for FluxSwiss in the previous year; of €1.7 million compared with €2.3 million for Transitgas; of €0.7 million compared with €1.0 million for Interconnector (UK) and of €0.7 million compared with €0.9 million for TENP KG.

Liquidity Risk

Liquidity risk management is essential since maximum liquidity and optimum use of cash represent a major objective of the Fluxys Group. The amounts invested and the investment period reflect the short- and long-term planning of cash needs as closely as possible, taking into account operational risks.

The Fluxys Group has entered into financing arrangements that include contractual clauses (financial covenants) which the group satisfied as at 31-12-2016. These contractual clauses provide for a minimum level of equity, ratios of cash flow against interests payable and cash flow against net debt.

The maturity of interest-bearing liabilities is reported in Note 5.12.

Cash facilities

The group has cash facilities for an amount of €612.5 million as at 31-12-2016, compared with €612.2 million as at 31-12-2015.

6.1 Summary of financial instruments at balance sheet date

In thousands of €

31-12-2016	Category	Book value	Fair value	Level
I. Non-current assets				
Other financial assets – Category 3 derivative instruments	3*	12	12	2
Other financial assets – Category 2 derivative instruments	2*	2,413	2,413	2
Investment securities at fair value through income statement	2	56,934	56,934	1 & 2
Other financial assets	1	3,051	3,051	2
Loans and receivables	1	332,377	349,891	2
II. Current assets				
Other current financial assets – Derivative instruments	3*	6,144	6,144	2
Trade and other receivables	1	167,746	167,746	2
Cash investments	1 & 2	105,348	105,348	1 & 2
Cash and cash equivalents	1 & 2	280,084	280,084	1 & 2
Total financial instruments – assets		**954,109**	**971,623**	
I. Non-current liabilities				
Interest-bearing liabilities	1	2,603,921	2,676,860	2
Other financial liabilities – Derivative instruments	3**	27,688	27,688	2
II. Current liabilities				
Interest-bearing liabilities	1	573,267	578,740	2
Other financial liabilities – Derivative instruments	3**	542	542	2
Trade and other payables	1	132,622	132,622	2
Total financial instruments - liabilities		**3,338,040**	**3,416,452**	

** The detail of these financial instruments is provided in Table 6.3*

*** The detail of these financial instruments is provided in Table 6.5*

The categories correspond to the following financial instruments:

1. Financial assets (including loans and receivables) or financial liabilities at depreciated cost.
2. Assets or liabilities at fair value through profit or loss.
3. Assets or liabilities at fair value through equity.

6.2 Summary of financial instruments at balance sheet date				In thousands of €
31-12-2015	Category	Book value	Fair value	Level
I. Non-current assets				
Investment securities at fair value through income statement	2	23,046	23,046	1 & 2
Other financial assets	1	1,612	1,612	2
Loans and receivables	1	273,606	293,763	2
II. Current assets				
Other current financial assets – Derivative instruments	3*	927	927	2
Trade and other receivables	1	132,797	132,797	2
Cash investments	1 & 2	121,937	121,937	1 & 2
Cash and cash equivalents	1 & 2	291,920	291,920	1 & 2
Total financial instruments – assets		**845,845**	**866,002**	
I. Non-current liabilities				
Interest-bearing liabilities	1	2,840,298	2,901,093	2
Other financial liabilities – Derivative instruments	3**	42,746	42,746	2
II. Current liabilities				
Interest-bearing liabilities	1	293,524	293,524	2
Other financial liabilities – Derivative instruments	3**	3,682	3,682	2
Trade and other payables	1	116,327	116,327	2
Total financial instruments - liabilities		**3,296,577**	**3,357,372**	

** The detail of these financial instruments is provided in Table 6.3*

*** The detail of these financial instruments is provided in Table 6.5*

6.3 Detail of fair value of derivative instruments in assets

In thousands of €

Derivative instruments designated as hedging instruments	As at 31-12-2016	As at 31-12-2015
Foreign exchange swaps and forwards - Hedging of net foreign investments	861	927
Interest rate swaps - Cash flow hedges	0	0
Total of instruments designated as hedging instruments of which:	**861**	**927**
Non-current	12	0
Current	849	927

Derivative instruments not designated as hedging instruments	As at 31-12-2016	As at 31-12-2015
Cross currency interest rate swaps	0	0
Foreign exchange swaps and forwards	7,708	0
Total of instruments not designated as hedging instruments of which:	**7,708**	**0**
Non-current	2,413	0
Current	5,295	0

Total of derivate instruments in assets of which:	**8,569**	**927**
Non-current	2,425	0
Current	6,144	927

6.4 Maturity of derivative instruments in assets

In thousands of €

	As at 31-12-2016	As at 31-12-2015
Up to one year	6,144	927
One to five years	2,400	0
More than five years	25	0
Total	**8,569**	**927**

6.5 Detail of fair value of derivate instruments in liabilities		In thousands of €
Derivative instruments designated as hedging instruments	**As at 31-12-2016**	**As at 31-12-2015**
Foreign exchange swaps - Hedging of net foreign investments	2,943	12,882
Interest rate swaps - Cash flow hedges	20,037	27,697
Total of instruments designated as hedging instruments of which:	**22,980**	**40,579**
Non-current	22,438	36,897
Current	542	3,682
Derivative instruments not designated as hedging instruments	**As at 31-12-2016**	**As at 31-12-2015**
Cross currency interest rate swaps	5,250	5,849
Total of instruments not designated as hedging instruments of which:	**5,250**	**5,849**
Non-current	5,250	5,849
Current	0	0
Total of derivate instruments in liabilities of which:	**28,230**	**46,428**
Non-current	27,688	42,746
Current	542	3,682

6.6 Maturity of derivate instruments in liabilities		In thousands of €
	As at 31-12-2016	**As at 31-12-2015**
Up to one year	542	3,682
One to five years	4,319	9,198
More than 5 years	23,369	33,548
Total	**28,230**	**46,428**

All of the group's financial instruments fall within Levels 1 and 2 of the fair value hierarchy. Their fair value is measured on a recurring basis.

Level 1 of the fair value hierarchy includes short-term investments and cash equivalents whose fair value is based on quoted prices. They consist mainly of bonds.

Level 2 of the fair value hierarchy includes other financial assets and liabilities whose fair value is based on other inputs that are observable for the asset or liability, either directly or indirectly.

The techniques for measuring the fair value of Level 2 financial instruments are as follows:

- The items 'Interest-bearing liabilities' include the fixed-rate bonds whose fair value is determined based on active market rates, usually provided by financial institutions.
- The items 'Other financial assets' and 'Other financial liabilities' include derivative instruments whose fair value is determined based on active market rates, usually provided by financial institutions.
- The fair value of other financial assets and liabilities categorised under level 2 is largely identical to their book value:
    - either because they have a short-term maturity (such as trade receivables and payables), or
    - because they bear interest at the market rate at the closing date of the financial statements.

Note 7. Contingent assets and liabilities – rights and liabilities of the group

7.1. Litigation

Litigation regarding the oil business

Pursuant to an agreement signed on 9 November 1979, the Belgian State commissioned Fluxys Belgium SA (formerly Distrigas) to negotiate the purchase of crude oil with the Kingdom of Saudi Arabia. Fluxys Belgium SA accepted this assignment provided that the Belgian State covered the costs, losses and all risks inherent to this assignment.

As part of the decision to discontinue the oil business, appeals were lodged against the Belgian State and Fluxys Belgium SA.

The risk incurred by Fluxys Belgium SA is covered by a guarantee from the Belgian State (Royal Decree of 3 February 1981 - Belgian Official Gazette of 17 February 1981) pursuant to the agreement of 9 November 1979 between the Belgian State and Fluxys Belgium SA and the letter of 30 December 1983 from the Ministers for Finance and Economic Affairs.

Other litigation

- Transitgas claim: The Transitgas transmission facilities were closed during the period between July and December 2010. A claim has been filed on this subject for an amount of €250 million by SPEIA versus ENI, Stogit and Transitgas. Transitgas considers this claim unfounded and appeals against it. The first decision by the courts was issued in favour of Transitgas and in the meantime SPEIA has been placed under administration. The administrator has not to date expressed any intention to pursue the proceedings.
- Ghislenghien: As announced in 2011, Fluxys Belgium has undertaken, in agreement with insurers and other responsible parties, to proceed to the final compensation of private victims of the accident which occurred at Ghislenghien in 2004. Although most of the victims were compensated in 2012, some cases are still open. Fluxys Belgium conducts an evaluation of these cases as they evolve. No reliable estimate can be made at this stage. No provision has therefore been recognised as at 31-12-2016.

- Claim relating to the 'Open Rack Vaporiser' investment: A compensation claim for additional works was introduced by a supplier in the scope of the investment 'Open Rack Vaporiser' made by Fluxys LNG. The latter disputes this claim and an expert was appointed to assess the case. No reliable estimate can be made at this stage. No provision has therefore been recognised as at 31-12-2016.
- Other claims: Other claims arising from the operation of our facilities are in progress but their potential impact is immaterial.

7.2. Assets and items held for third parties, in their name, but at the risk and for the benefit of entities included in the consolidation scope

In the ordinary course of business, the group holds gas belonging to its customers at its storage sites in Loenhout, in the pipelines and in the tanks at the LNG terminal in Zeebrugge.

7.3. Guarantees received

Bank securities for the benefit of the group comprise guarantees received from contractors in respect of construction contracts as well as bank guarantees received from customers.

7.4. Guarantees provided by third parties on behalf of the entity

Rental guarantees have been issued in favour of owners of assets leased by the group.

Other guarantees have been issued in Belgium for an amount of €137 thousand as at 31-12-2016.

7.5. Long-term leases and licence agreements

The Fluxys Group also has licence agreements for third-party sites on which installations on which the group's installations are built. These agreements expire between 2017 and 2112. The group has also entered into lease agreements for offices and sites. The amount included in the profit/loss for the financial year appears in Note 4.3.2.

7.6. Commitments as part of the leases for Transitgas, Tenp and Interconnector (UK)

As part of the leases for Transitgas and TENP, FluxSwiss and Fluxys TENP have committed to pay royalties dues for the provision of 90% and 64.25% respectively of the capacity of these facilities. The end date of these leases is 2021, with the option to extend.

As part of the leasing agreements, Interconnector (UK) has committed to pay the royalties due for the provision of the facilities. The maturity of these investments is between 2018 and 2025.

7.7. Commitments under the capacity subscription agreements

The Capacity Subscription Agreements (CSA) entered into with the terminal users of the Zeebrugge LNG terminal provide for 1,051 slots to be available from 2017 to 2027. In addition, Yamal Trade (a 100% subsidiary of Yamal LNG) and Fluxys LNG signed a 20-year contract for the transshipment of a maximum of 8 million tonnes of LNG per year at the port of Zeebrugge in Belgium.

7.8. Commitments in relation to loans and commitments to the European Investment Bank (EIB)

The Fluxys Group was granted loans which contain contractual financial covenants which were fulfiled by the group as at 31-12-2016..

Certain financing agreements however provide for maintaining a minimum level of cash and cash equivalents in the companies concerned for a total of €46.4 million as at 31 December 2016.

Finally, certain guarantees have been issued as part of financing agreements. They are primarily in the form of guarantees on revenue generated by the activity concerned, on trade receivables and on shares held.

7.9. Commitments with regard to projects under construction

The Fluxys Group has a stake in TAP. The group progressively provides the funds necessary for financing this investment under construction, either in the form of equity (€ 113 million already invested and € 70 million planned in 2017), or in the form of shareholder loans (€ 203 million already invested and € 170 million planned in 2017).

7.10. Other

Other liabilities have been made and received by the Fluxys Group, but their potential impact is immaterial.

Note 8. Related parties

The Fluxys Group is controlled by Publigas.

In 2016, the Fluxys Group executed joint operation transactions with Tenp KG and Transitgas and with associates, i.e. Balansys, Dunkerque LNG, Gaz-Opale, GasBridge 2, Swedegas and TAP.

Other related parties include transactions with Publigas, SNAM (partner in GasBridge 1) and FluxSwiss shareholders as well as relations with administrators and members of the management team, the latter being charged with the management of the company and decisions on investments.

Related parties

In thousands of €

	31-12-2016			
	Joint arrange-ments	Associates	Other related parties	Total
I. Assets with related parties	**0**	**212,420**	**0**	**212,420**
1. Other financial assets	**0**	**212,420**	**0**	**212,420**
1.1. Securities other than shares	0	0	0	0
1.2. Loans	0	212,420	0	212,420
2. Other non-current assets	**0**	**0**	**0**	**0**
2.1. Finance leases	0	0	0	0
2.2. Other non-current receivables	0	0	0	0
3. Trade and other receivables	**0**	**0**	**0**	**0**
3.1. Clients	0	0	0	0
3.2. Finance leases	0	0	0	0
3.3. Other receivables	0	0	0	0
4. Cash and cash equivalents	**0**	**0**	**0**	**0**
5. Other current assets	**0**	**0**	**0**	**0**
II. Liabilities with related parties	**60,409**	**9,122**	**35,539**	**105,070**
1. Interest-bearing liabilities (current and non-current)	**60,409**	**0**	**35,539**	**95,948**
1.1. Bank borrowings	0	0	0	0
1.2. Finance leases	0	0	0	0
1.3. Bank overdrafts	0	0	0	0
1.4. Other borrowings	60,409	0	35,539	95,948
2. Trade and other payables	**0**	**9,122**	**0**	**9,122**
2.1. Trade payables	0	0	0	0
2.2. Other payables	0	9,122	0	9,122
3. Other current liabilities	**0**	**0**	**0**	**0**

Related parties				In thousands of €
	31-12-2015			
	Joint arrange-ments	Associates	Other related parties	Total
I. Assets with related parties	**163**	**122,572**	**0**	**122,735**
1. Other financial assets	**0**	**122,572**	**0**	**122,572**
1.1. Securities other than shares	0	0	0	0
1.2. Loans	0	122,572	0	122,572
2. Other non-current assets	**0**	**0**	**0**	**0**
2.1. Finance leases	0	0	0	0
2.2. Other non-current receivables	0	0	0	0
3. Trade and other receivables	**163**	**0**	**0**	**163**
3.1. Clients	163	0	0	163
3.2. Finance leases	0	0	0	0
3.3. Other receivables	0	0	0	0
4. Cash and cash equivalents	**0**	**0**	**0**	**0**
5. Other current assets	**0**	**0**	**0**	**0**
II. Liabilities with related parties	**59,801**	**9,382**	**35,224**	**104,407**
1. Interest-bearing liabilities (current and non-current)	**59,801**	**0**	**35,224**	**95,025**
1.1. Bank borrowings	0	0	0	0
1.2. Finance leases	0	0	0	0
1.3. Bank overdrafts	0	0	0	0
1.4. Other borrowings	59,801	0	35,224	95,025
2. Trade and other payables	**0**	**9,382**	**0**	**9,382**
2.1. Trade payables	0	0	0	0
2.2. Other payables	0	9,382	0	9,382
3. Other current liabilities	**0**	**0**	**0**	**0**

Related parties				In thousands of €
	31-12-2016			
	Joint arrange-ments	Associates	Other related parties	Total
III. Transactions with related parties				
1. Sale of non-current assets	0	0	0	0
2. Purchase of non-current assets (-)	0	0	0	0
3. Services rendered and goods delivered	645	2,692	0	3,337
4. Services received (-)	0	0	0	0
5. Net financial income	-1,445	2,812	-1,959	-592
6. Directors' and senior executives' remuneration			2,600	2,600
of which short-term employee benefits			2,263	2,263
of which post-employment benefits			337	337

Related parties				In thousands of €
	31-12-2015			
	Joint arrange-ments	Associates	Other related parties	Total
III. Transactions with related parties				
1. Sale of non-current assets	0	0	0	0
2. Purchase of non-current assets (-)	0	0	0	0
3. Services rendered and goods delivered	645	3,367	0	4,012
4. Services received (-)	0	0	0	0
5. Net financial income	-3,401	1,804	-1,994	-3,591
6. Directors' and senior executives' remuneration			2,698	2,698
of which short-term employee benefits			2,260	2,260
of which post-employment benefits			438	438

Note 9. Directors' and senior executives' remuneration

Pursuant to Article 14 of the Articles of Association, the Board of Directors of Fluxys SA comprises no more than 12 members, who can be natural persons or legal entities, shareholders or not, and appointed for six years as a maximum by the General Meeting of Shareholders.

The Fluxys Group has not granted any loans to administrators and the administrators have moreover not executed any unusual transactions with the group.

Reference is made to Note 8 for more information on this subject.

Note 10. Events after the balance sheet date

Fluxys Belgium transmission tariffs

On 23 March 2017 Fluxys Belgium announced that a market consultation would be organised on a reviewed tariff proposal for its transmission services. This proposal includes a tariff reduction and the non-indexation of tariffs on 1 January 2018. The CREG should approve this proposal before the summer.

Lowering the tariffs for transmission services on 1 January 2018 would not have an effect on Fluxys Belgium's results as these are largely based on regulatory authorised returns.

Renegotiation of financing in Switzerland

Transitgas and FluxSwiss had variable-rate external debts in their accounts which were hedged with interest rate swaps (IRS). However, as a result of negative interest rates on the Swiss financial markets, the hedging was partly ineffective. Transitgas and FluxSwiss have renegotiated the loan agreements with the partner banks. In addition, the IRS hedging was terminated and replaced by CAPS. As a result the risk of the finance hedging being ineffective has been eliminated. These operations took place in the first quarter of 2017. The fees incurred as part of the renegotiation of financing and hedging will be depreciated over the remaining duration of the loans.

Planned merger of Fluxys Finance and Fluxys SA

The Boards of Fluxys Finance and Fluxys SA approved, on 27 and 29 March 2017 respectively, a planned merger between the two entities. The absorption of Fluxys Finance by Fluxys responds to structural, operational, administrative, financial and governance needs.

The planned merger will have no impact on the consolidated financial statements of the Fluxys Group.

4. Statutory auditor's report to the shareholders' meeting of Fluxys NV/SA on the consolidated financial statements for the year ended 31 December 2016

As required by law, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

Report on the consolidated financial statements – Unqualified opinion

We have audited the consolidated financial statements of Fluxys NV/SA ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The consolidated balance sheet shows total assets of 6.584.994 (000) EUR and the consolidated income statement shows a consolidated profit (group share) for the year then ended of 76.928 (000) EUR.

Board of directors' responsibility for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Statutory auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) as adopted in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group’s preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the group’s officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the consolidated financial statements of Fluxys NV/SA give a true and fair view of the group’s net equity and financial position as of 31 December 2016, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Emphasis of Matter

Without prejudice to the unqualified opinion issued above, we draw attention to Note 1C Judgement and use of estimates and Note 4.3.5.1 Depreciations to the consolidated financial statements in which the judgements and uncertainties regarding the depreciation pattern of the Interconnector (UK) assets are disclosed.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which does not modify the scope of our opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Antwerp, 18 April 2017
The statutory auditor

____

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by Jurgen Kesselaers

III. Statutory accounts of Fluxys SA under Belgian GAAP

Photo courtesy of Interconnector (UK)

Given that Fluxys SA is essentially a holding company, holding the stakes at their book value, the unconsolidated annual accounts only give a limited view of the company's financial situation. As a result, the Board of Directors has deemed it appropriate to, in application of Article 105 of the Companies Code, only publish an abridged version of the unconsolidated annual accounts as at 31 December 2016.

The statutory auditor has issued a report with an unqualified audit opinion on the statutory annual accounts of Fluxys SA.

These documents have been filed with the National Bank of Belgium.

They are available free of charge upon request at the following address:
Fluxys SA.
Communication Department
Avenue des Arts 31, 1040 Bruxelles

1. Balance sheet

Assets		In thousands of €
	31-12-2016	31-12-2015
Fixed assets	**1,826,474**	**1,822,783**
Formation expenses	0	0
Intangible assets	0	0
Property, plant and equipment	571	713
Financial fixed assets	1,825,903	1,822,070
Current assets	**239,891**	**249,726**
Amounts receivable after more than one year	0	0
Stock and contracts in progress	0	0
Amounts receivable within one year	34,053	1,436
Cash investments	0	0
Cash at bank and in hand	205,834	248,287
Deferred charges and accrued income	4	3
Total	**2,066,365**	**2,072,509**

Equity and liabilities		In thousands of €
	31-12-2016	31-12-2015
Equity	**1,922,421**	**1,931,681**
Capital	1,701,341	1,698,888
Share premium account	81,131	80,903
Revaluation surpluses	0	0
Reserves	50,018	43,677
Accumulated profits (losses)	89,879	108,148
Capital subsidies	52	65
Provisions and deferred taxes	**177**	**34**
Provisions for liabilities and charges	150	0
Deferred tax	27	34
Amounts payable	**143,767**	**140,794**
Amounts payable after more than one year	0	0
Amounts payable within one year	143,767	140,794
Accrued charges and deferred income	0	0
Total	**2,066,365**	**2,072,509**

2. Income statement

Income statement		In thousands of €
	31-12-2016	31-12-2015
Operating income	10,581	11,890
Operating charges	18,484	18,550
Operating profit	**-7,903**	**-6,660**
Financial income	134,774	99,766
Finance costs	25	8,922
Net financial income	**134,749**	**90,844**
Earnings before taxes	**126,846**	**84,184**
Transfer from deferred taxes	**7**	**8**
Income tax expenses	**32**	**949**
Net profit/loss for the period	**126,821**	**83,243**
Transfer to untaxed reserves	**0**	**0**
Profit for the period available for appropriation	**126,821**	**83,243**

3. Appropriation account

Appropriation account		In thousands of €
	31-12-2016	31-12-2015
Profit to be appropriated	**234,969**	**244,362**
Profit for the period available for appropriation	126,821	83,243
Profit carried forward from the previous period	108,148	161,119
Transfer from equity	**0**	**0**
From reserves	0	0
Transfer to equity	**6,341**	**4,162**
To the legal reserve	6,341	4,162
To the other reserves	0	0
Result to be carried forward	**89,879**	**108,148**
Profit to be carried forward	89,879	108,148
Profit to be distributed	**138,749**	**132,052**
Dividends	138,749	132,052

4. Capital at the end of the period

Capital at the end of the period	In thousands of €
	31-12-2016
Subscribed capital	
At the end of the previous period	1,733,610
At the end of the period	1,736,063
Capital represented by	
Registered shares	86,803,174
Dematerialised shares	0
Bearer shares	0

Structure of shareholders

Shareholders	Type	Number of voting right declared	%
Publigas	Shares without nominal value	67,377,931	77.62 %
Caisse de dépôt et placement du Québec	Shares without nominal value	17,305,412	19.94 %
Federal Holding and Investment Company	Shares without nominal value	1,851,852	2.13 %
Members of staff and management	Shares without nominal value	267,979	0.31 %

5. Income taxes

Income taxes	In thousands of €
	31-12-2016
Breakdown of heading 670/3	
Income taxes on the result of the current period	24
Taxes and withholding taxes due or paid	0
Excess of income tax prepayments	0
Estimated additional taxes	24
Income taxes on previous periods	8
Additional taxes due or paid	8
Additional taxes (estimated or provided for)	0
Reconciliation between profit before taxes and estimated taxable profit	
Profit before taxes	126,846
Permanent differences:	-126,782
Definitively taxed income	-125,743
Non-deductible expenses	200
Notional interest	-1,239
Total	64

6. Workforce

1. Headcount

A. Employees recorded in the personnel register

1a During the current period	Total	Men	Women
Average number of employees			
Full time	32.4	21.2	11.2
Part-time	12.1	7.8	4.3
Total in full-time equivalents (FTE)*	37.2	24.0	13.2
Numbers of hours actually worked			
Full time	51,388	34,579	16,809
Part-time	7,995	4,533	3,462
Total	59,383	39,112	20,271
Employee expenses			
Full time	5,290,731 €	3,494,684 €	1,796,047 €
Part-time	1,114,281 €	850,476 €	263,805 €
Total	6,405,012 €	4,345,160 €	2,059,852 €
Advantages in addition to wages	**22,731 €**	**15,421 €**	**7,310 €**

1b. During the previous period	Total	Men	Women
Average number of employees (FTE)	33.0	20.8	12.2
Numbers of hours actually worked	51,880	34,672	17,208
Employee expenses	5,072,606 €	3,855,180 €	1,217,426 €
Advantages in addition to wages	26,226 €	19,407 €	6,819 €

2. At the closing of the period

	Full time	Part-time	Total FTE*
a. Employees recorded in the personnel register	35	12	39.8
b. By nature of the employment contract			
Contract for an indefinite period	34	12	38.8
Contract for a definite period	1	0	1.0
Contract for execution of a specifically assigned work	0	0	0.0
Replacement contract	0	0	0.0
c. According to gender and study level			
Men	24	8	27.0
Primary education	0	0	0.0
Secondary education	2	0	2.0
Higher non-university education	3	0	3.0
University education	19	8	22.0
Women	11	4	12.8
Primary education	0	0	0.0
Secondary education	0	0	0.0
Higher non-university education	3	3	4.5
University education	8	1	8.3
d. By professional category			
Management	27	10	30.5
Employees	8	2	9.3
Workers	0	0	0.0
Other	0	0	0.0

**full-time equivalent*

B. Hired temporary staff and personnel placed at the enterprise's disposal

During the current period	Hired temporary staff	Personnel placed at the enterprise's disposal
Average number of persons employed	0.7	0.0
Numbers of hours actually worked	1,297	0
Costs for the enterprise	55,377 €	0 €

2. Table of movements in personnel during the period

	Full time	Part-time	Total FTE*
Entries			
a. Employees recorded in the personnel register	13	0	13.0
b. By nature of the employment contract			
Contract for an indefinite period	11	0	11.0
Contract for a definite period	2	0	2.0
Contract for execution of a specifically assigned work	0	0	0.0
Replacement contract	0	0	0.0
Exits			
a. Employees whose contract end-date has been recorded in the personnel register in this financial year	5	1	5.8
b. By nature of the employment contract			
Contract for an indefinite period	4	1	4.8
Contract for a definite period	1	0	1.0
Contract for execution of a specifically assigned work	0	0	0.0
Replacement contract	0	0	0.0
c. By reason of termination of contract			
Retirement	1	0	1.0
Early retirement	0	0	0.0
Dismissal	0	0	0.0
Other reason	4	1	4.8
Of which: the number of persons who continue to render services to the company at least half-time on a self-employed basis	0	0	0.0

**full-time equivalent*

3. Information on training provided to employees during the period

	Men	Women
Initiatives in formal continued professional development at the expense of the employer		
Number of employees involved	20	12
Numbers of actual training hours	519	249
Net costs for the enterprise	119,007 €	51,899 €
Of which gross costs directly linked to training	119,007 €	51,899 €
Of which fees paid and payments to collective funds	0 €	0 €
Of which subsidies and other financial advantages received (to deduct)	0 €	0 €
Total of initiatives of less formal or informal professional training at the expense of the employer		
Number of employees involved	18	10
Numbers of actual training hours	201	118
Net costs for the enterprise	22,688 €	10,143 €
Total of initiatives of initial professional training at the expense of the employer		
Number of employees involved	0	0
Numbers of actual training hours	0	0
Net costs for the enterprise	0 €	0 €

Glossary

Other investments in property, plant and equipment out of the RAB

The average of the cumulative investments made in expanding Zeebrugge LNG Terminal and in activities not subject to regulation.

EBIT

Earnings Before Interest and Taxes

EBITDA

Earnings Before Interest, Taxes, Depreciation and Amortisation

Net financial debt

Interest-bearing liabilities after deduction of regulatory liabilities and 75% of cash and cash equivalents and long- and short-term cash investments

RAB

Average Regulated Asset Base for the year in question

WACC

Weighted Average Cost of Capital

In thousands of €			
	Notes	**31-12-2016**	**31-12-2015**
Operating revenue	4.1	1,027,448	872,876
Sales of gas related to balancing operations and operational needs	4	49,093	62,107
Other operating income	4.2	13,603	15,301
Consumables, merchandise and supplies used	4.3.1	-3,837	-3,920
Purchase of gas related to balancing operations and operational needs	4	-54,333	-73,419
Miscellaneous goods and services	4.3.2	-213,789	-169,092
Employee expenses	4.3.3	-134,248	-132,463
Other operating charges	4.3.4	-11,119	-22,743
Earnings from associates and joint ventures	4.6	-4,711	18,636
EBITDA		**668,107**	**567,283**
Depreciation and amortisation	4.3.5	-424,435	-272,275
Provisions	4.3.5	5,882	1,033
Impairment losses	4.3.5	2,009	-537
EBIT	4.1	**251,563**	**295,504**

In thousands of €			
	Notes	**31-12-2016**	**31-12-2015**
Interest-bearing borrowings (non-current)	5.12	2,603,921	2,840,298
Interest-bearing borrowings (current)	5.12	573,267	293,524
Other fundings (non-current)	5.12.4	-102,953	-112,154
Other fundings (current)	5.12.4	-4,423	-2,046
Other liabilities (non-current)	5.12.5	-399,675	-367,753
Other liabilities (current)	5.12.5	-34,138	-35,465
Non-current loans	5.6.2	-119,953	-137,298
Short-term investments (75%)	5.9	-79,011	-91,453
Cash and cash equivalents (75%)	5.9	-210,063	-218,940
Investments at fair value through profit and loss (75%)	5.5.2	-42,701	-17,285
Net financial debt		**2,184,271**	**2,151,429**

In thousands of €			
	Notes	**31-12-2016**	**31-12-2015**
Financial income from lease contracts	4.4	0	137
Interest income on marketable securities, cash and cash equivalents at fair value through Profit and Loss	4.4.1	7,520	4,756
Other interest	4.4.1	4,277	233
Borrowing interest costs	4.5.1	-98,723	-105,909
Net financial expenses		**-86,926**	**-100,783**

In thousands of €		
	31-12-2016	31-12-2015
Transport – Fluxys Belgium	2,302	2,285
Transport – Fluxys TENP	15	25
Transport – TENP KG	273	206
Transport – Fluxys Deutschland	239	248
Stockage	259	270
Terminalling LNG	348	350
RAB (regulated entities)	**3,437**	**3,384**
Other tangible fixed assets outside RAB*	286	248
Fluxys SA	0	1
FluxSwiss group	820	846
IUK	555	729
BBL VOF	128	147
GMSL	0	1
Other tangible fixed assets	**1,790**	**1,971**
Extended RAB	**5,227**	**5,355**

* Investments in extensions of the LNG terminal in Zeebrugge included

In Belgium, the Regulated Asset Base (RAB) is determined based on the average book value of the fixed assets over the period, increased mainly by the cumulated accounting depreciation of the revaluation. The computation is done in accordance with the tariff methodology published by CREG.

Matters relating to financial or accounting data
José Ghekière
Tel.: +32 (0)2 282 73 39
jose.ghekiere@fluxys.com

Press contacts
Rudy Van Beurden
Tel.: +32 (0)2 282 72 30
rudy.vanbeurden@fluxys.com

Laurent Remy
Tel.: +32 (0)2 282 74 50
laurent.remy@fluxys.com

This report is also available in Dutch and French. For a copy in these languages, please contact the Communication Department:
Tel.: +32 (0)2 282 77 32
Fax: +32 (0)2 230 79 43
communication@fluxys.com

Fluxys SA

Registered Office – Avenue des Arts 31 – B-1040 Brussels
Tel 32 2 282 72 11 – **Fax** 32 2 230 02 39 – www.fluxys.com
VAT BE 0827.783.746 **RPM** Brussels – D/2017/12.604/3
Photography: ©Fluxys Belgium - David Samyn