FLUXYS GROUP

TRANSITION TO IFRS

FLUXYS

EXCELLENCE IN GAS TRANSPORT

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CHAPTER I. First time adoption of IFRS

Context

Starting with financial year 2005, Fluxys will present its consolidated accounts in conformity withIFRS-IAS and in comparison with the previous year.

To this end, Fluxys drew up the IFRS-IAS opening balance sheet on 1 January 2004 and converted its financial statements on 31 December 2004.

The purpose of this brochure is to provide information on the impact of the transition of the Fluxys group accounts to IFRS-IAS.

In its approach to making the transition to the IFRS-IAS, Fluxys started from the basic principle of preserving as much as possible the valuation rules of the Belgian accounting system which are applied to the Fluxys group and which comply with IAS-IFRS. Fluxys will perform only the adjustments necessary and required by IFRS-IAS.

The aim is to limit discrepancies between the two accounting systems and facilitate the move from one system to the other.

Accounting policies

The accounting policies, approved by the Board of Directors, on which the first IFRS financial statements are based are given in Chapter IV.

The main choices made by the Fluxys Group are mentioned in the chapter entitled 'Reconciliation between Belgian GAAP and IFRS-IAS'.

CHAPTER II. Reconciliation between the IFRS and the Belgian GAAP Financial Statements

1. IFRS balance sheet compared to the presentation in Belgian GAAP on 1 January 2004

Assets (in thousands of €)			
	IFRS on 01-01-2004	Belgian GAAP on 01-01-2004	Variance on 01-01-2004
I. Non-current assets	**1 525 368**	**1 460 096**	**65 272**
Tangible assets	1 283 326	1 449 843	-166 517
Intangible assets	8 546	9 202	-656
Other financial fixed assets	46	538	-492
Other non-current assets	233 450	513	232 937
II. Current assets	**421 453**	**375 476**	**45 977**
Stocks	11 936	11 936	0
Current tax assets	2 871	2 963	-92
Customers and other debtors	50 498	23 846	26 652
Cash and cash equivalents	349 619	319 966	29 653
Other current assets	6 529	16 765	-10 236
Total assets	1 946 821	1 835 572	111 249

Liabilities (in thousands of €)	IFRS on 01-01-2004	Belgian GAAP on 01-01-2004	Variance on 01-01-2004
I. Capital and reserves	**1 109 437**	**1 410 088**	**-300 651**
Capital and reserves of parent company shareholders	1 086 769	1 370 617	-283 848
Minority interests	22 668	39 471	-16 803
II. Non-current liabilities	**725 115**	**268 383**	**456 732**
Interest-bearing non-current liabilities	233 947	144 361	89 586
Non-current provisions	96 954	124 022	-27 068
Deferred tax liabilities	394 214	0	394 214
Other non-current liabilities	0	0	0
III. Current liabilities	**112 269**	**157 101**	**-44 832**
Interest-bearing current liabilities	24 719	18 710	6 009
Current provisions	6 779	0	6 779
Current tax liabilities	7 017	7 019	-2
Suppliers and other current creditors	49 188	83 395	-34 207
Other current liabilities	24 566	47 977	-23 411
Total liabilities	1 946 821	1 835 572	111 249

2. Reconciliation of capital and reserves on 1 January 2004

Reconciliation of capital and reserves between Belgian GAAP and IFRS on 1 January 2004	Group's share (in thousands of €)	Total including minority interests (in thousands of €)
In Belgian GAAP on 31 December 2003	**1 370 617**	**1 410 088**
Reclassification Fluxys dividends Deferred taxes on revaluation surpluses	**-331 818**	**-338 050**
Impacts of normative differences Scope of consolidation: Distri Ré + SEGEO (without min. interests) Provisions for 'Employee benefits' Non-compliant provisions Requalification of Leasing contracts Other	**47 970**	**37 399**
Capital and reserves on 1 January 2004 in IFRS	**1 086 769**	**1 109 437**

3. IFRS balance sheet compared to the presentation in Belgian GAAP on 31 December 2004

Assets (in thousands of €)	Notes	IFRS on 31-12-2004	Belgian GAAP on 31-12-2004	Variance on 31-12-2004
I. Non-current assets		**1 519 590**	**1 445 185**	**74 405**
Tangible assets	1	1 283 858	1 434 566	-150 708
Intangible assets	2	11 793	9 392	2 401
Other financial fixed assets	3	49	771	-722
Other non-current assets	4	223 890	456	223 434
II. Current assets		**487 665**	**452 002**	**35 663**
Stocks	5	12 791	12 791	0
Current tax assets		389	389	0
Customers and other debtors	6	49 129	39 844	9 285
Cash and cash equivalents	7	419 582	383 039	36 543
Other current assets	8	5 774	15 939	-10 165
Total assets		2 007 255	1 897 187	110 068

Liabilities (in thousands of €)				
	Notes	**IFRS on 31-12-2004**	**Belgian GAAP on 31-12-2004**	**Variance on 31-12-2004**
I. Capital and reserves		**1 153 869**	**1 428 190**	**-274 321**
Capital and reserves of parent company shareholders	9	1 130 377	1 387 617	-257 240
Minority interests	9	23 492	40 573	-17 081
II. Non-current liabilities		**714 490**	**255 727**	**458 763**
Interest-bearing non-current liabilities	10	241 523	127 140	114 383
Non-current provisions	11	92 026	128 587	-36 561
Deferred tax liabilities	12	380 941	0	380 941
Other non-current liabilities		0	0	0
III. Current liabilities		**138 896**	**213 270**	**-74 374**
Interest-bearing current liabilities	13	22 993	18 453	4 540
Current provisions	11	10 423	0	10 423
Current tax liabilities	14	15 936	15 966	-30
Suppliers and other current creditors	15	70 552	116 085	-45 533
Other current liabilities	16	18 992	62 766	-43 774
Total liabilities		2 007 255	1 897 187	110 068

4. Reconciliation of capital and reserves on 31 December 2004

Reconciliation of capital and reserves between Belgian GAAP and IFRS on 31 December 2004	**Group's share (in thousands of €)**	**Total including minority interests (in thousands of €)**
In Belgian GAAP on 31 December 2004	**1 387 617**	**1 428 190**
Reclassification Fluxys dividends Deferred taxes on revaluation surpluses	**-313 586**	**-319 603**
Impacts of normative differences Scope of consolidation: Distri Ré + SEGEO (without min. interests) Scope of consolidation and GMSL goodwill Provisions for 'Employee benefits' Non-compliant provisions Requalification of Leasing contracts Other	**56 346**	**45 282**
Capital and reserves on 31 December 2004 in IFRS	1 130 377	1 153 869

5. IFRS income statement compared to the presentation in Belgian GAAP on 31 December 2004

Income statement by nature in thousands of €	Notes	IFRS on 31-12-2004	Belgian GAAP on 31-12-2004	Variance
Operating result		**113 511**	**107 164**	**6 347**
Operating income	17	416 432	449 612	-33 180
Operating expenses	17-18	-302 921	-342 448	39 527
Net finance costs	19	**4 488**	**446**	**4 042**
Extraordinary result	20	**0**	**85**	**-85**
Profit before tax		**117 999**	**107 695**	**10 304**
Income tax expenses	21	-38 180	-51 677	13 497
Net profit for the financial year		**79 819**	**56 018**	**23 801**

6. Comments on changes in profit

The net profit for the period expressed in IFRS-IAS is appreciably higher than in Belgian GAAP.

The reconciliation between results in the previous point highlights the main reason for the difference between the two accounting systems: deferred taxes. These result from the temporary differences between the values for tax purposes and the book value in the balance sheet, differences that will have an impact on the taxes to be recovered or paid in the future. For the Fluxys Group, the main source of deferred taxes is the 'revaluation' recorded on the tangible assets, included in the deemed cost in IFRS-IAS. The depreciation of the revaluation surpluses is not tax deductible. However, the taxes paid are covered at the level of the IFRS-IAS income statement by using the 'deferred taxes' provisions on the liabilities side of the balance sheet.

Compared to the situation with Belgian GAAP, this has no impact on the financial position or performance, nor on cash flow. The booking of deferred taxes consists to initially deduct an amount in the capital and reserves corresponding to the taxes due and subsequently to include them in the result when these taxes are paid. Consequently, the recognition of deferred taxes in the income statement causes only a **temporary difference** between the two accounting systems. As a result, the company's value is not affected.

The other major factors of showing a higher profit in IFRS-IAS than in Belgian GAAP are the termination of goodwill amortization and the change in the scope of consolidation.

7. Income statement by nature in IFRS

Income statement by nature in thousands of €		
	Notes	**IFRS on 31-12-2004**
Operating revenue	17	401 134
Results from operating activities	17-18-20	**113 511**
Net finance costs	19	4 488
Results from operating activities after net finance costs		**117 999**
Share in the profit of associates and joint ventures accounted for using the equity method		0
Income tax expenses	21	-38 180
Result from continuing operations		**79 819**
The post-tax profit or loss of discontinued operations		0
Profit or loss for the period		**79 819**

8. Reconciliation of the profit for the financial year ended on 31 December 2004

Reconciliation of profit for the financial year between Belgian GAAP and IFRS on 31 December 2004	Total (k€)
Net profit for the financial year on 31 December 2004 in Belgian GAAP	**56 018**
Impacts of normative differences	**23 801**
Deferred taxes on depreciation of tangible assets	15 918
Scope of consolidation	4 474
Goodwill	2 865
Other	544
Net profit for the financial year on 31 December 2004 in IFRS	79 819

CHAPTER III. Explanations on the major impacts

Consolidation scope

The consolidation scope in IFRS-IAS includes the following companies:

Global integration:	**IFRS-IAS**	**Belgian GAAP**
Fluxys SA (Parent company)	100.00 %	100.00 %
Fluxys LNG SA	91.84 %	91.84 %
SEGEO SA	- %	75.00 %
Huberator SA	90.00 %	90.00 %
GMSL LTD	100.00 %	90.00 %
Compartiment Distri RE SA	100.00 %	- %
Fluxys NL BV	100.00 %	100.00 %
Fluxys BBL BV	100.00 %	100.00 %

Proportional integration:	**IFRS-IAS**	**Belgian GAAP**
SEGEO SA	75.00 %	- %
Fluxys BBL VOF	20.00 %	20.00 %

The business combinations prior to 1 January 2004 were not adjusted in the transition to IFRS-IAS.

1. Tangible assets

In the opening balance sheet, the ‘tangible assets’ are included at their deemed cost corresponding to the revalued value in the Belgian accounts, which means that a downward revision of the Regulated Asset Base for the regulated fixed assets could generate a write-down to be recognised in profit or loss in IFRS-IAS.

They are valued following the cost model from the opening balance sheet.

The difference between their value in IFRS-IAS and in Belgian GAAP is mainly justified by reclassification of the operational leasing agreements to financial to financial leasings. The related fixed assets value is included in the heading ‘Other non-current assets’ in IFRS-IAS.

It must also be emphasised that the Fluxys Group adopted IFRIC 4 ‘Determining Whether an Arrangement Contains a Lease’ as from 1 January 2004. Doing so involves the redefinition of long-term capacity contracts as financial leasing contracts.

Finally, SEGEO, the company controlled jointly with Gaz de France, is consolidated by the proportional integration method in IFRS-IAS instead of full integration under Belgian GAAP. This has a negative impact on the value of tangible assets.

2. Intangible assets

The 'intangible assets' are valued according to the cost model and are influenced positively by the fact that goodwill is not depreciated in IFRS-IAS. However, intangible assets are reduced by the amount of the non-compliant formation expenses and by the recognition of goodwill in foreign currencies of the subsidiary whereas in Belgian GAAP it was converted into euro.

3. Other financial assets

The 'other financial assets' were reduced following the full integration of the GMSL subsidiary under IFRS-IAS instead of 90% under Belgian GAAP, with the result that the relevant advance payments are eliminated in IFRS-IAS.

Even though the 10% of additional acquisitions in GMSL are not the subject of a legal transfer of property until 2005, the company is 100% integrated as from 1 January 2004 in IFRS-IAS in view of the substance of the agreement.

4. Other non-current assets

Other non-current assets' record the amounts receivable over one year on leasing agreements described as 'financial leasing' in IFRS-IAS and the transfer under this heading of the 'more than one year' portion of the malus to be recovered in connection with regulated tariffs.

5. Stocks

The stocks of the Fluxys Group are valued according to the weighted average cost method in both IFRS-IAS and Belgian GAAP.

Contracts in progress are valued using the 'stage of completion' method.

6. Customers and other debtors

'Customers and other debtors' show the amounts receivable within one year on leasing agreements labeled as 'financial leases' in IFRS-IAS.

The change in the scope of consolidation justifies the rest of the difference between the amount in IFRS-IAS and the one under Belgian GAAP.

7. Cash and cash equivalent

The favourable change in 'cash and cash equivalent' in IFRS-IAS is justified by the change in the scope of consolidation.

The adoption of the IAS 32 and 39 as from 1 January 2004 has also a positive impact on this heading via the booking of cash equivalents at their fair value through profit and loss.

8. Other current assets

The 'other current assets' decline under IFRS-IAS, primarily via the change in the scope of consolidation and its impact on the additional elimination of intra-group operations.

These assets also record the transfer to other non-current assets of the 'more than one year' portion of the malus to be recovered in connection with regulated tariffs.

9. Capital and reserves

The reconciliation of 'capital and reserves' between the two accounting systems is provided in Chapter II.

The reduction of the capital and reserves is largely justified by the reclassification of deferred taxes included in the revaluation surpluses in Belgian GAAP to a specific heading in IFRS-IAS outside of capital and reserves.

The second reclassification in IFRS-IAS is justified by the presentation before appropriation of the result. The dividend proposed by the parent company is maintained in capital and reserves.

The normative differences are primarily justified by the change in the scope of consolidation (see the beginning of the Chapter), the rejection of provisions for major repairs and maintenance, the provisions for employee benefits (IAS 19) and the requalification of leasing agreements.

10. Interest-bearing non-current liabilities

The 'interest-bearing non-current liabilities' include the additional amounts payable after one year related to leasing agreements labeled as 'financial leasing' in IFRS-IAS and the transfer to this heading of the 'more than one year' portion of bonuses available to future tariffs in connection with regulated tariffs.

11. Non-current and current provisions

This includes the provisions related to IAS 19 'Employee benefits'. Note that for the opening balance sheet on 1 January 2004, Fluxys used the initial valuation of relevant obligations without actuarial differences whereas the subsequent valuation uses the so-called 'corridor' method.

The balance of the difference between the two accounting systems is justified by the reversal of the non-compliant provisions ('Major repairs and maintenance') and by discounting the long-term obligations on one hand and the change in the scope of consolidation on the other.

The consequences of these adjustments are exposure of the Fluxys Group to a greater volatility of its result.

12. Deferred tax liabilities

In IFRS-IAS, the 'deferred tax liabilities' primarily record the transfer of the portion of deferred tax included in the revaluation surpluses according to Belgian GAAP.

They also record the tax effects related to the impact on the provisions mentioned above.

The change in the consolidation scope and the requalification of leasing agreements close the main justification of this heading.

13. Interest-bearing current liabilities

The 'interest-bearing current liabilities' mainly include the additional debts due in the year related to leasing agreements described as 'financial leases' in IFRS-IAS.

14. Current tax liabilities

The change in this heading between IFRS-IAS and the Belgian GAAP is justified by the proportional integration of SEGEO instead of full integration.

15. Suppliers and other current creditors

The proposed dividends are reclassified to the capital and reserves in IFRS.

The 'suppliers and other current creditors' line also declines in IFRS-IAS primarily due to the change in the scope of consolidation and its impact on the further elimination of intra-group operations.

16. Other current liabilities

The 'other current liabilities' record mainly the transfer to the interest-bearing non-current liabilities of the 'more than one year' portion of the bonuses available to future tariffs in connection with regulated tariffs.

These liabilities also record in IFRS-IAS the inclusion in the result of exchange rate differences entered in Belgian GAAP.

17. Operating income

Operating income is valued at fair value of the consideration received or to be received, when such income accrues to the company and its fair value can reliably be determined.

The difference between the value of operating income used in IFRS-IAS and in Belgian GAAP is primarily justified by the reclassification of operational leasing agreements to financial leasing agreements and long-term capacity provision agreements to financial leasing contracts.

The income on financial leasing agreements is entered as financial income for the share corresponding to the return on the capital invested.

Lastly, the operating income is influenced in IFRS-IAS by the change in the scope of consolidation. Thus, only the share of the Fluxys Group of the operating income of SEGEO is included.

18. Operating expenses

The main IFRS-IAS adjustments made in the 'operating expenses' can be summarised as follows:

- the depreciation on tangible assets for which the risks and benefits inherent in their ownership have been transferred to a third party are reverse entered following the redefinition of these agreements as financial leasing;
- the charges related to operational leasing agreements concluded and redefined as financial leasing are transferred to financial charges for the share of the payments corresponding to the cost of capital invested, whereas the share of payments relative to repayment of capital decreases leasing debts entered on the liabilities side of the balance sheet;
- the depreciation on goodwill is also reverse entered whereas the impairment test of value on goodwill does not require the entry of a depreciation;
- the 2004 financial year benefits from a decrease of the provisions 'IAS 19 Employee benefits' in operating charges;
- the integration of the Distri RE compartment generates additional intra-group eliminations and has a positive impact on the operational result and lastly
- only Fluxys Group share of the operating charges of SEGEO is included in IFRS-IAS.

19. Net finance costs (financial result in Belgian GAAP)

The main IFRS-IAS impacts on the financial result can be summarised as follows:

- as mentioned in the operating income, the revenues on financial leasing agreements are entered as financial income for the share corresponding to the return on capital invested;
- the expected return on hedging assets of pension funds is entered as financial income whereas the decapitalisation cost of the 'IAS 19 Employee benefits' commitments is entered as financial charges, these latter being greater than the financial income in 2004;
- the cost related to other decapitalisations;
- the integration of the Distri RE compartment positively influences the financial result whereas the shift from the SEGEO consolidation to proportional integration influences it negatively;
- and finally, the entry of cash equivalents at their fair value generates a slight reduction in the financial result.

20. Extraordinary result

The extraordinary result related to the closing of Péronnes and the work securing decommissioned facilities is transferred to the operational result in IFRS-IAS.

21. Income taxes expenses

In IFRS-IAS, the income taxes expenses record primarily the impact of using deferred taxes relative to the revaluation surpluses recorded under Belgian GAAP on the tangible assets (see Chapter II, point 7).

The change in the scope of consolidation in IFRS-IAS has also an impact on income taxes.

CHAPTER IV. IFRS ACCOUNTING POLICIES

General information

The registered office of Fluxys sa/nv (the parent company) is located at Avenue des Arts 31, 1040 Brussels, Belgium.

The main object of the Fluxys Group is the transmission and storage of gas, terminalling activities, management of a gas hub and the provision of round-the-clock gas dispatching services and software solutions for natural gas producers, shippers and traders.

Declaration of compliance with IFRS

The Fluxys consolidated financial statements are prepared in compliance with the IFRS (International Financial Reporting Standards) accounting system. They are presented in thousands of euros.

The Fluxys Group adopted IFRS for the first time in 2005, with 1 January 2004 as the date of transition to the IFRS. As part of this initial adoption of IFRS, the following choices provided for in IFRS 1 *(First-time adoption of IFRS)* were made:

- the business combinations prior to the date of transition to IFRS have not been adjusted except for the fact that goodwill is henceforth kept in the currency of the subsidiary,
- the tangible assets are entered in the opening balance sheet at their deemed cost corresponding to their fair value,
- on the date of transition to IFRS, the accumulated actuarial differences related to personnel benefits (IAS 19) have been recognised,
- the exchange rate differences existing at the moment of the transition are maintained.

The Fluxys Group applies the IAS 32 and 39 on financial instruments and IFRIC 4 'Determining Whether an Arrangement Contains a Lease' as from 1 January 2004.

Significant accounting policies

1. General principles

The financial statements present fairly the financial position, financial performance and cash flows of the Fluxys Group.

The Group draws up its financial statements according to the full accrual accounting method, except for the information on cash flows.

The assets and liabilities are not offset unless the offset is imposed or authorised by an international accounting standard.

The balance sheet of the Fluxys Group presents the current and non-current assets and liabilities separately.

The accounting methods are applied in a consistent way.

2. Consolidation criteria

The consolidated financial statements of the Fluxys Group are drawn up in accordance with the IFRS, and in particular IFRS 3 *(Business combinations)*, IAS 27 *(Consolidated and separate financial statements)*, IAS 28 *(Investments in associates)* and IAS 31 *(Interests in Joint Ventures)*.

The subsidiaries (over which control is exercised) are consolidated according to the global integration method (IAS 27), the joint ventures (for which there is joint control) are consolidated according to the proportional integration method (IAS 31), and the associates (over which a significant influence is exercised) are accounted for using the equity method (IAS 28).

Control is the power to direct the financial and operating policies of a company in order to obtain benefits from its activities.

Joint control is the sharing of this control under a contractual agreement between partners.

Significant influence is the power to participate in decisions of financial and operating policy of an economic activity without however exercising control or joint control over these policies.

If this option does not change the true and fair view, an associated company may not be accounted for by the equity method if the costs to bear are disproportionate to the benefits the users of the present financial statements would derive from them.

3. Closing date

The closing date of the consolidated financial statements is 31 December, which is also the closing date of the parent company's accounts.

If the accounts of a subsidiary are closed between 30 September and 31 December, they are used as they are; nonetheless, if significant transactions or other events occur between the closing date of the subsidiary's accounts and 31 December, adjustments are made to take into account the effects of these transactions and other significant events.

If the closing date is prior to 30 September, interim accounts are drawn up as per 31 December for the purposes of consolidation.

4. Events after the closing

The value of the assets and liabilities on the closing date is adjusted when subsequent events alter the amounts based on situations and circumstances that existed on the date of the closing.

These adjustments take place until the date the financial statements are approved by the Board of Directors.

The other events related to situations occurring after the closing date are presented in the notes if they are significant.

5. Translation of the financial statements of a foreign operation

In connection with consolidation, the balance sheets of foreign operations are translated into euro using the closing exchange rate method and the income statements are translated at the average rate of the financial year if it has not varied significantly.

The Group share in the differences resulting from this translation method are found under the heading 'Exchange rate differences' of the consolidated capital and reserves whereas the third-party share is found under the heading 'Minority interests' on the liabilities side of the balance sheet.

6. Goodwill (Consolidation difference)

Goodwill represents the excess on the date of acquisition of the cost of the business combination over the share of the buyer's interest in the net fair value of the assets, liabilities and identifiable contingent liabilities.

- If this difference is positive, the goodwill is recognised as an asset. An impairment test is performed each year even in the absence of indicators of impairment, or more frequently if events or changes in circumstances indicate it could have depreciated. (IFRS 3 - *Business combinations*).
- If this difference is negative, the negative goodwill is recognised in profit or loss.

7. Intangible assets

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

The intangible assets are entered in the balance sheet at their cost *(cost model),* less any accumulated amortization and impairment losses.

The intangible assets entered in the balance sheet for which the use is limited in time are depreciated by the straight-line method over their useful life.

Computer software is depreciated at the rate of 20%.

Subsequent expenditures are capitalised if they make it possible to generate economic benefits beyond the initial performance level.

These fixed assets are the subject of impairment losses when as a result of their modification or changes in economic or technological circumstances their book value exceeds their value recoverable by the company.

Intangible assets used indefinitely are the subject of an annual impairment test and are depreciated if their book value exceeds their recoverable value.

The useful life, depreciation method and any residual value of intangible assets are re-examined on each closing date, and where appropriate are adapted prospectively.

8. Tangible assets

A tangible asset is recognised if it is probable that the expected future economic benefits attributable to the asset will flow to the company and if the cost of this asset can be measured reliably.

The tangible assets are entered in the balance sheet at their cost (the cost model), less any accumulated amortization and impairment losses.

Subsequent expenditures are capitalised if they make it possible to generate economic benefits beyond the initial performance level.

Financial leases or similar contracts are those that transfer substantially all the risks and rewards incidental to ownership of an asset. The assets held under these contracts are recognised in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments related to the contracts. The corresponding obligation is recorded in the financial debts.

Depreciation methods

The tangible assets are depreciated using the straight-line method over their useful life.

Each significant component of a tangible asset is entered separately and is depreciated according to its useful life.

The amortization method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the group.

The main depreciation periods on this basis are:

- 50 years for pipelines related to transmission in Belgium, terminalling facilities and tanks;
- 40 years for storage facilities;
- 35 years for administrative buildings, dwellings and facilities for personnel;
- 20 years for industrial buildings;
- 5 years for equipment, vehicles, site machinery and furniture;
- 4 years for computer equipment;
- 3 years for prototypes.

The useful life, depreciation method and any residual value of tangible assets are reviewed on each closing date and, where appropriate, are adapted prospectively.

9. Non-consolidated equity securities (such as stock and shares)

'Non-consolidated equity securities' are entered at their fair value unless this latter cannot be reliably determined, in which case they are valued at their cost.

Changes in the fair value are entered directly in the capital and reserves until the derecognition of the asset, on which date the cumulative gain or loss in the capital and reserves is recognised in profit or loss.

If there is an objective indicator of the depreciation of non-consolidated equity securities, these latter are subject to an impairment test and, if appropriate, an impairment loss is directly recognised in profit or loss.

10. Stocks

Valuation

Stocks are measured at the lower of cost or net realisable value.

If necessary, write-down on stocks is recorded to take account of:

- either the net realisable value, or
- the losses in value on stocks due to risks justified by the nature of the assets under consideration or by the activity carried out.

Such write-downs on stocks are entered as charges for the financial year during which they occur.

Gas stocks

Stocks of gas are held according to the weighted average price method.

Raw material and consumables

Raw materials and consumables are held in the inventory according to the weighted average price method.

Contracts in progress

Contracts being carried out for third parties are valued at their cost price, taking into account indirectly attributable costs.

When the result of a contract in progress can be measured reliably on the closing date, the income and costs of the contract are entered in income and charges, respectively, according to the 'stage of completion' method. An expected loss on the contract in progress is immediately entered in charges.

11. Borrowing costs

The borrowing costs directly attributable to the acquisition, construction or production of an asset requiring a long period of preparation (fixed assets, stocks, investment properties, etc.) are added to the cost of this asset until it can be either used or sold.

The amount of the cost of these loans that can be incorporated into the cost of the asset corresponds to the actual cost incurred on these loans, less any investment income on the temporary investment of those borrowings.

12. Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, short-term investments (on maximum 3 months) and investments readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are classified in the category of financial assets at their fair value through profit and loss.

Changes in the fair value of these financial assets are entered in the income statement.

13. Trade debtors and other assets

Trade debtors and other assets are valued at their nominal value, less estimated non-recoverable amounts.

When the effect of the time value of money is significant, the trade debtors and other assets are discounted.

The assets that fall under these heading are reduced when their book value on the closing date of the financial year is greater than their recoverable value.

14. Provisions

Provisions entered on the liabilities side of the balance sheet are those that meet the following criteria:

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

If these conditions are not met, no provision is recognised.

The amount recognised as provision corresponds to the best estimate of the expenditure necessary to settle the present obligation on the closing date; in other words, the amount the company estimates it will reasonably have to pay to settle the obligation on the closing date or to transfer it to a third party on this same date.

When the effect of the time value of money is significant, the provisions are discounted. The discount rate used is a pre-tax rate reflecting the market's present assessments of the time value of money and the risks specific to these liabilities.

Any risk incurred by the Group not meeting the above criteria is subject of a description at the level of contingent liabilities in the Notes.

Provisions for Employee benefits

Fluxys has created complementary pension schemes of the 'objective to be reached' or 'fixed premiums' type. These schemes' benefits are based on seniority and the employee's wage.

The defined benefit pension scheme enables the employee to benefit from a pension that, in the case of a complete career, is equal to 75% of the last annual income, less the amount of a theoretical legal pension. A reduction coefficient is applied if the career is not complete.

The defined contribution pension scheme enables the employee to benefit from a pension made up of personal premiums and employers' premiums.

In case of decease before retirement, a pension in favour of the surviving spouse and benefits for the orphans are provided in both systems

Valuation

The pension funds are evaluated annually by a qualified actuary.

The regular payments related to these complementary pension schemes are recognised as an expense at the time they are made.

The provisions for pensions and other collective obligations are recognised in the balance sheet in accordance with IAS 19 (Employee benefits) and determined on the basis of the present value of the defined benefit obligations (Projected Unit Credit).

The corridor method and the actuarial differences related to the employee benefits

The actuarial differences exceeding by more than 10 percent the maximum of the present value of the obligation for defined benefits on the closing date (before deduction of the scheme's assets), or of the fair value of the scheme's assets on the closing date, are distributed over the employees' estimated years of service.

15. Trade debts

Trade debts are valued at their nominal value.

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

16. Assets, liabilities and commitments in foreign currencies

Entry in the accounts on conclusion of the transaction

Debts and amounts receivable in foreign currency are valued at the rate on the day of the operation.

Valuation at year end

At the end of the year and in accordance with IAS 21 *(The Effects of Changes in Foreign Exchange Rates)*, monetary assets and liabilities are valued at the rate at year-end, as are rights and obligations.

Such valuation gives rise to translation differences which are totalled up for each currency and recognised in profit or loss.

17. Recognition as revenue

Revenue is evaluated at the fair value of the consideration received or to be received when such income accrues to the company and its fair value can be reliably measured.

The regulated income received by the Group can generate a bonus or a malus relative to the fair margin intended to remunerate the invested capital. The bonuses are carried forward and recorded under the heading of current or non-current 'Other liabilities' whereas the accrued income corresponding to a malus is included in income in return for the recording of a current or non-current 'Other asset'.

18. Taxes

Current taxes are established in accordance with the local taxation rules and are based on the result of the parent company, subsidiaries and the share held in joint ventures.

The assets and liabilities of deferred taxes record, respectively, the temporary deductible or taxable differences between the book and fiscal values.

The assets and liabilities of deferred tax are evaluated at the tax rates applicable for the fiscal year during which it is expected the asset will be used or the liability settled, if these rates are adopted or virtually adopted on the closing date.

Deferred tax assets are only recorded when taxable profits are likely to be generated on which deferred tax assets will be charged.

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