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50hertz elia

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Elia Group continues to invest significantly in grid development and posts a solid operational performance

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Highlights for the first half of 2016

- ***The Elia Group realises grid investments of €153 million in Belgium and €183 million in Germany to reinforce the grid infrastructure.***
- ***Elia and 50Hertz continue to provide very high system reliability (99.999%), benefiting 30 million end-users in Belgium and Germany***
- ***Elia Group's normalised[1] net profit down 0.4% to €84.6 million following increased maintenance expenses and depreciation in Germany (down by 13.3%). Elia Transmission (Belgium) up by 18.8% following a solid operational performance.***

1. 1H 2016 in a nutshell

The Elia Group continues to invest in important grid development projects, aiming at maintaining a very high level of security of supply and contributing to the further development of the European energy market.

In Belgium, the Stevin project is in full swing: the underground cable works were started and the first part of the new line, between Zomergem and Eeklo, is since mid-May in operation. The first part of the project 'Boucle de l'Est', which allows the integration of onshore windfarms in the east of Belgium, will be operational end 2016. The first works for the Nemo project, the subsea-cable that will connect the UK with Belgium, will begin next September.

At 50Hertz in Germany, several substations (Wolmirstedt, Jessen, Hamburg North) were commissioned in the first half of 2016. Building permits are expected in the 3rd quarter of 2017 for the Uckermark 380kV-line which will connect the substation of Bertikow in Brandenburg with the Neuenhagen substation in Berlin. A supplementary procedure on bird protection is still running. The offshore windfarm Arkona Becken, part of the Ostwind 1 cluster, obtained all the required planning approvals and building of the wind farm has started. For the offshore interconnection "Kriegers Flak Combined Grid Solution', which will link the Danish region of Zealand with Germany Mecklenburg-Western Pomerania, EU grant agreement was received and award procedures for the Danish platform were finalized.

In line with our continued focus on the implementation of infrastructure projects, safety remains a top priority. In Belgium 'GoForZero' accidents for contractors was launched in June and the first pilot projects will follow this year.

[1] The term "normalised" refers to performance measures (EBIT, Net Profit, EPS) before non-recurring items. Non-recurring items are either income or expenses which do not occur regularly as part of the normal activities of the company. They are presented separately because they are important for the understanding of the underlying sustainable performance of the company due to their size or nature. We refer to page 9, point 7 for a detailed reconciliation of the non-recurring items.

2. Key figures

Consolidated results of the Elia Group for the first six months of 2016:

Key figures (in million EUR)	1H2016	1H2015 *	Difference (%)
Total revenues	405.1	392.7	3.2%
EBITDA	212.5	202.0	5.2%
EBIT	148.3	147.8	0.3%
Non-recurring items	*1.8*	*7.9*	*n.r.*
Normalized EBIT	146.5	.139.9	.4.7%
Net finance costs	(45.6)	(44.0)	3.6%
Net profit	**86.5**	**94.0**	**(8.0%)**
Non-recurring items	*1.9*	*9.0*	*n.r.*
Normalized profit	**84.6**	**85.0**	**(0.4%)**
Total assets	5,922.7	6,435.6	(8.0%)
Equity	2,405.7	2,413.6	(0.3%)
Net financial debt	2,563.8	2,583.4	(0.8%)
Key figures per share	1H2016	1H2015*	Difference (%)
Basic earnings per share (EUR)	1.42	1.55	(8.4%)
Normalized basic earnings per share (EUR)	1.39	1.40	(0.7%)
Equity per share (EUR)	39.6	39.7	(0.3)%

* Restated (see note 2.c to the condensed consolidated interim financial statements)

EBIT = operating profit and share of profit of equity-accounted investees (net of income tax)
EBITDA = EBIT + depreciation/amortisation + changes in provisions
Non-recurring items: for more information on the non-recurring items we refer to point 7.
Net profit = Profit for the period attributable to owners of the company
Equity = Equity attributable to owners of the company
Net financial debt = non-current and current loans and borrowings less cash and cash equivalents

Elia Group CEO Chris Peeters comments on the first half of 2016:

"The new regulatory framework in Belgium, in place since the beginning of 2016, rewards operational performance which has a beneficial effect on the financial results in Belgium. On the German side we are temporarily facing some pressure on the results coming from increased maintenance activities. In the first half of 2016, the major investments on- and offshore were on track. The integration of renewable energy, both onshore and offshore, the development and strengthening of the European energy market and ensuring security of supply remain our main anchor points."

Analyst & Investor conference call

The Elia group will host a conference call for the institutional investors and analysts on August 26, 2016 at 10:00 AM CET. For dial-in details and webcast links please visit our website (http://www.eliagroup.eu).

The **normalised group EBIT** increased by 4.7% to €146.5 million thanks to a strong result of Elia Transmission which is more than compensating the decrease in the results at 50Hertz Transmission.
In Belgium the increase results from the increased regulated net profit, which in the new regulatory framework is more linked to the investments and operational performance, together with the increased taxes which are passed through into the revenues. Furthermore there was an increase in the received customer contributions to specific investments. These effects were partly offset by higher damages to our electrical system as a result of some bad weather. In Germany on the other hand, as already announced, a peak in the maintenance activities cycle is reached in 2016 resulting in productivity pressure. Furthermore, following the important investment programme, the personnel base has grown leading to higher personnel costs.

Taking into account the non-recurring elements realized in the first half of 2015, which were more significant compared to this year, the **reported group EBIT** (up 0.3%) remained almost stable. The €7.9 million non-recurrent EBIT realized per June 2015 was a result from the commissioning of the Baltic 2 cable at 50Hertz Transmission and from the integration of the power exchange APX Group in EPEX spot. Per June 2016 there was only a limited impact of non-recurring items (€1.8 million) primarily linked to the efficient management of energy costs within the "Korridor"-model at 50Hertz Transmission.

The Elia Group's **normalised consolidated net profit** decreased by 0.4%. The net profit was mainly negatively impacted by the increased income taxes.

More details of the financial performance of the two constituent transmission system operators (Elia Transmission in Belgium and 50Hertz Transmission in Germany) can be found in the individual segment reporting sections below.

The **net financial debt** remained stable at €2,563.8 million (down 0.8%).

Elia Group shareholders' equity remained at a similar level compared to the previous period, at €2,405.7 million, mainly due to the profit from the first half of the year (€86.5 million) being offset by the dividend payment for 2015 (€94.2 million).

2.A. Segment reporting for Elia Transmission (Belgium)

Results of Elia Transmission in the first six months of 2016:

Elia Transmission key figures (in million EUR)	1H2016	1H2015 *	Difference (%)
Total revenues	405.1	392.7	3.2%
EBITDA	166.9	147.1	13.5%
EBIT	102.6	92.9	10.4%
Non-recurring items	*(0.2)*	*3.4*	*n.r.*
Normalized EBIT	102.8	89.5	14.8%
Net finance costs	(45.6)	(44.0)	3.6%
Income tax expenses	(16.1)	(10.1)	59.4%
Net profit	**40.9**	**39.1**	**4.6%**
Non-recurring items	*(0.1)*	*4.5*	*n.r.*
Normalized profit	**41.0**	**34.6**	**18.5%**
Total assets	5,111.2	5,669.7	(9.9%)
Total equity	1,867.0	1,920.5	(2.8%)
Net financial debt	2,563.8	2,583.4	(0.8%)
Free cash flow	62.5	(41.6)	(250.2%)

Free cash flow = net cash from operating activities – net cash used in investing activities
* Restated (see note 2.c to the condensed consolidated interim financial statements)

Since the beginning of 2016, the new tariff methodology that was approved by the regulator CREG on 26 November 2015 came into force. The methodology is again applicable for a period of 4 years and introduces some new elements compared to the previous methodology which was applicable from 2012 until 2015. The most important changes are the way the allowed net profit is built up, which is now more linked to the operational performance, the structure of the tariffs, which are still covering a cost plus methodology, and the definition of the cost categories, reservation costs of ancillary services (except black start) are qualified as "influenceable costs" (and no longer non-controllable costs) and are eligible for an incentive within predefined limits. Finally, tariffs are no longer fixed for a period of 4 years, within the 4-year timeframe there is a yearly tariff agreed upon. For more information about the new regulated framework we refer to note 16 to the condensed consolidated interim financial statements.

<u>Financial</u>

Elia Transmission's revenue increased by 3.2% in the first six months of 2016 compared with the same period the previous year, at €405.1 million. The increase in revenues is a result of the higher allowed regulated net profit, higher taxes that are passed through in revenues, higher revenues realized by EGI and the recovery of the pre-fid development costs for the interconnection between UK and Belgium from Nemo Link. These increases were partly

compensated by lower costs, mainly for ancillary services and financing, which are being passed through in revenues.
As pointed out before, the tariff structure applicable since 2016 has changed compared to last year and is now more a "service driven"-structure.

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

Detailed revenues (in million EUR)	1H2016	1H2015	Difference (%)
Revenues according to the old tariff structure which no longer is applicable	(1.3)	396.0	n.r.
Grid connection	20.5	21.1	(2.8%)
Management and development of grid infrastructure	238.6	0.0	n.r.
Management of the electrical system	59.9	0.0	n.r.
Compensation for imbalances	72.1	0.0	n.r.
Market integration	12.0	0.0	n.r.
International revenue	13.4	33.1	(59.5%)
Other income (incl EGI revenues)	50.2	30.5	64.4%
Subtotal revenues & other income	**466.4**	**480.7**	**(3.0%)**
Settlement mechanism: deviations from approved budget	(61.4)	(88.0)	n.r.
Total revenues and other income	**405.1**	**392.7**	**3.2%**

In the first 6 months of 2016 there was still a final settlement of the 2015 **revenues (according to the old tariff structure which no longer is applicable)**, amounting to a reduction of €1.3 million.

Grid connection revenues have not materially changed compared to the previous tariff structure. The revenues slightly decreased as a result of lower revenues from new grid connections with direct customers.

Costs made for planning, maintenance and the further development of the transmission grid in order to maintain the long term capacity and to cope with reasonable demand of transmission of electricity are paid within the **management and development of the grid infrastructure revenues**. Part of the regulated allowed net profit is also paid within these revenues.

The **management of the electrical system revenues** covers primarily the costs made for enabling a permanent balance between supply and demand of electricity, which includes the costs for the congestion management, compensation for losses of energy and the management of the flows of electricity. Within these revenues, there is also a contribution to the regulated allowed net profit.

Services rendered in the context of energy management (incl. black start) and individual balancing of balancing groups are paid within the **revenues for compensation of imbalances**.

Finally, the last section of the tariff revenues encompasses the services Elia Transmission is rendering within the context of the **market integration**. Besides the costs needed for complying with this task a final contribution to the regulated allowed net profit is included.

International revenue decreased by €19.7 million (down 59.5%), mainly due to lower congestions on the borders resulting from the fact that Doel 3 and Tihange 2 were back up and running since end of 2015.

Other income realised in the first half of 2016 increased by 64.4% compared to the same period last year to €50.2 million. This is principally coming from EGI revenues, which have increased from €1.3 million to €9.4 million, and from the recovery of the pre-fid development costs for the interconnection between UK and Belgium from Nemo Link (€8.8 million).

The **settlement mechanism** encompasses both deviations in the current year from the budget approved by CREG (€46.4 million) and the settlement of old deficits and surpluses realised before 2016 (€15 million). The operational surplus compared to the budget is mainly a result from lower costs for ancillary services (incl. black start) (€25.4 million), lower controllable costs (€8.0 million) and lower financial charges (€6.3 million). These items were partly being offset by lower tariff revenues (down €1.9 million), a higher net profit (€1.3 million) and higher taxes (€2.6 million). In addition, a temporary tariff surplus of €8.5 million is carried forward within the current year.

Reported **EBITDA** (up 13.5%) and **EBIT** (up 10.4%) are mainly impacted by the increase in the regulated net profit and the higher taxes that are passed through into revenues. The increase in **normalised EBIT** is even more pronounced (up 14.8%) as a result of the non-recurrent profit which last year was realised through HGRT following the integration of the power exchange APX Group in EPEX SPOT (€3.6 million).

Net finance costs increased (up 3.6%) from the same period the previous year to €45.6 million. This is mainly an outcome of the non-recurrent impact from last year’s transaction on APX (see infra).
The increase in **income tax expense** (up 59.4%) was mainly a result of the increased profit before taxes. Secondly, following the decrease in the Belgian notional interest deduction, the effective tax rate increased from 22.8% per June 2015 to 29.0% (for more detail please refer to section 10 to the condensed consolidated interim financial statements).

The increase in the **normalised profit** of 18.5% to €41.0 million is mainly a result from:

1. increase in the **fair remuneration**:
   The decrease in the OLO was more than compensated by the increased beta and the newly applied illiquidity premium resulting in a fair remuneration of €17.5 million (up €4.6 million)
2. decrease in the **incentives** realised:
   Comparing the old incentives (€17.4 million), including the offsetting in tariffs of the decommissioning of obsolete fixed assets, to the new incentives (€13.3 million) there is a decrease of €4.1 million
3. newly introduced **mark-up** for strategic investments accounts for €6.9 million per end of June
4. higher damages to the electrical installations (down € 3.7 million)
5. increase in the customer contributions for specific investments (up €2.3 million).

Total assets reduced by 9.9% to €5,111.2 million as a result of the payback of a Eurobond which came to maturity in April and which was already pre-refinanced at the end of 2015. Therefore **net financial debt** remained stable €2,563.8 million.

The **free cash flow** was positively impacted by the settlement of the fiscal claim that was partly paid out in the first half of 2016 (refer to note 11 of the interim management report for more information).

Operational

The **load** recorded on the Elia grid decreased by 0.7% in the first six months of 2016 to 38.9 TWh compared with the same period the previous year. Net offtake from the Elia grid stayed stable (34.4 TWh as opposed to 34.5 TWh in 2015).

There was an important drop in the imported volumes, decreasing from 11.9 TWh in the first half of 2015 to 6.9 TWh this year. Simultaneously the exported volumes have doubled to 4.0 TWh in the first six months of 2016, resulting in a net importation of 2.9 TWh or a reduction of 72.7%. This important reduction was mainly due to the restart of the Doel 3 and Tihange 2 nuclear reactors as mentioned here above. Total electricity flows between Belgium and its neighbours decreased (down 17.4%) to 10.9 TWh.

Investments

A net sum of €153.1[2] million (including Nemo) was invested, mainly on upgrading high-voltage stations and laying high-voltage cables. Until June, €49.8 million had already been invested in the Stevin project, mainly in the substations and power lines. Furthermore, the works for the Brabo investment continued, a total amount of €8.3 million was invested in the first half of 2016. Finally, Elia Transmission financed Nemolink for an amount of €29.5 million.

[2] Including capitalisation of software, IAS 23 (Borrowing Costs) and IFRIC 18 (Transfers of Assets from Customers – with customer contributions to grid connections fully recognised in IFRS as revenue), this gives €137.5 million.

2.B. Segment reporting for 50Hertz Transmission (Germany)

Results of 50Hertz Transmission in the first six months of 2016:

50Hertz Transmission key figures (in millions EUR)	1H2016*	1H2015*	Difference (%)
Total revenues	655.5	657.9	(0.4%)
EBITDA	198.6	181.3	9.5%
EBIT	133.8	140.4	(4.7%)
Non recurring	*4.7*	*10.6*	*n.r.*
Normalised EBIT	129.1	129.8	(0.5%)
Net finance costs	(22.4)	(7.5)	198.7%
Income tax expenses	(35.3)	(41.5)	(14.9%)
Net profit	**76.0**	**91.4**	**(16.8%)**
Of which 60% attributable to the Elia Group	***45.6***	***54.8***	***(16.8%)***
Non recurring	*3.3*	*7.5*	*n.r.*
Normalised net profit	**72.7**	**83.9**	**(13.3%)**
Of which 60% attributable to the Elia Group	***43.6***	***50.3***	***(13.3%)***
Total assets	5,839.9	4,958.4	17.8%
Total equity	1,352.3	1,276.3	6.0%
Net financial debt	940.9	915.6	2.8%
Free cash flow	(8.3)	287.4	(102.9%)

* Income, expenses, assets and liabilities are reported in the table at 100%

Financial

50Hertz Transmission's revenue remained in line with the revenue of the same period last year. This was a result of increasing revenues following the increased onshore and offshore investments which were compensated by the lower actual energy costs to be recovered. The **total revenues** are detailed in the table below.

Detailed revenues (in million EUR)	1H2016	1H2015	Difference (%)
Vertical grid revenues	487.3	376.2	29.5%
Horizontal grid revenues	84.7	67.2	26.0%
Ancillary services revenues	63.2	75.9	(16.7%)
Other income	25.8	22.4	15.2%
Subtotal revenue and other income	**661.0**	**541.7**	**22.0%**
Settlement mechanism: deviations from approved budget	(5.5)	116.2	n/a
Total revenues and other income	**655.5**	**657.9**	**(0.4%)**

Vertical grid revenues (tariffs end customers) increased by €111.1 million (up 29.5%), primarily as a result of the increase in the total allowed revenues by the regulator. The allowance for the energy costs, included in the allowed non-controllable costs which are passed on in the tariffs, was considerably higher compared to 2015. Furthermore, the investment activities lead to higher vertical grid revenues. Finally, the vertical grid revenues increased compared to the first half of 2015 following the lower settlement of old tariff surpluses, which were more reducing the tariffs charged to the customers in 2015.

Horizontal grid revenues (tariffs to TSOs) rose by 26.0% compared to the first half of 2015 mainly as a result of the projects Baltic 2, which was commissioned late 2015, and Ostwind 1 (Cluster Westlich Adlergrund). In Germany all offshore connection investment costs are shared across the four German transmission system operators. This means that 50Hertz bears around 20% of these costs and passes on 80% of its own connection costs to the other three TSOs. Following the increasing offshore investments the cost recovery charged horizontally to the other TSOs is rising and thus impacting horizontal revenues.

Ancillary services revenue decreased by 16.7%, primarily as a result of lower revenues from balancing groups compared to the first half of 2015. These revenues are mostly a pass-through of corresponding costs for control energy.

The **settlement mechanism** includes both the annual offsetting of deficits and surpluses arising before 2016 (+ €49.6 million) and the deviations in 2016 between the costs allowed to be passed on and the actual costs (- €55.1 million). The operational surplus in 2016 is primarily a result of the lower-than-expected energy costs.

EBITDA has increased (up 9.5%) to €198.6 million as a result of the investment activities.
As already communicated at the full year results of 2015, the additional result from the increased investments will be somewhat under pressure in 2016 mainly following a peak in the maintenance activities cycle. Furthermore, as a result of the important investment program 50Hertz is going through, the personnel base grew leading to higher personnel expenses (up 10.4% to € 48.5 million). **Normalised EBIT** (down 0.5%) was further impacted by the increased depreciation mainly as a result of the commissioning of the offshore Baltic 2 cable late 2016. Taking into account the non-recurring energy bonuses realised over the first half of 2016 (€5.4 million), which have slightly increased compared to the first half of 2015, and the 2015 non-recurring positive impact from the commissioning of Baltic 2 the **reported EBIT** came in at €133.8 million (down 4.7%).

Following the important debt capital market transactions that were closed in November 2015 and April 2016 for a total amount of €1,640 million, the **net finance costs** increased in the first 6 months of 2016 to €22.4 million.

The decrease in **income tax expense** (down 14.9%) was mainly a result of the decrease in pre-tax profit.

The 13.3% decrease in the **normalised profit** is mainly a result of:

1. Increased cost recovery for onshore investments (up €3.4 million)
2. Increased cost recovery for offshore investments (up €38.9 million)
3. Increased OPEX (down €19.7 million)
4. Increased depreciation (down €22.3 million)
5. Increased net finance costs (down €14.6 million)
6. Decreased taxes (up €4.4 million)

Total assets increased by 17.8% to €5,839.9 million, while **net financial debt** slightly increased to €940.9 million (up 2.8%) following a slightly negative free cash flow and increased accrued interests.

The **free cash flow** was positively impacted by higher funds from operations more than compensated by working capital movements.

<u>Operational</u>

In the first half of 2016 a net volume of 25.1 TWh was drawn off from the 50Hertz grid. The net offtake of electricity was 0.8% lower than during the same period last year (25.3 TWh).

50Hertz imported 6.4 TWh of electricity in the first half of 2016 (5.6 TWh in the 1st half of 2015) and exported 26.3 TWh (25.7 TWh in the 1st half of 2015). As a result, net exports of electricity are stable with a volume of 19.9 TWh. The maximum offtake within the 50Hertz grid was 8,698 MW in the first half of 2016. This represents a reduction of 3.6% with the maximum offtake in the first half of 2015 (9,024 MW).

<u>Investments</u>

On the path to accomplish the „Energiewende“, 50Hertz Transmission invested €182.6 million in the first half of 2016. The onshore investments amounted to €101.4 million and the corresponding figure for the offshore investments amounts to €81.2 million.
The most significant grid related onshore investments were made for the overhead line project Northring Berlin (€15.8 million) and for the new construction of substations (€39.9 million). Major investments in this category concerned new phase shifters in Vierraden and Röhrsdorf (€8.0 million) and substations in Vierraden (€4.8 million) and Schönewalde (€4.0 million).
Offshore investments were mainly made for the offshore grid connections Ostwind 1 (€57.2 million) and Baltic 2 (€15.6 million).

3. Significant events in the first half of 2016

Significant progress on crucial investments in Belgium and Germany

Nemo project - Belgium
In February 2015, Elia and National Grid signed a joint-venture agreement to build the first-ever subsea power line between the UK and Belgium. When all the work is finished, the new interconnector will have a maximum capacity of 1,000 MW. The line will comprise 140 km of cables and will provide enough electricity to power half a million homes.

Elia is due to start building the converter station between the subsea direct-current (DC) cable and the Belgian grid (which uses alternating current (AC)) in the second half of 2016. There is however a delay in the Nemo-project as a result of a non-successful quality test on the onshore cable. This will however not compromise the planned commissioning in the first quarter of 2019.

Stevin project - Belgium
Work on the Stevin project began on April 1st, 2015. The Stevin project will increase the capacity of the grid between Zomergem and Zeebrugge in order to incorporate in the grid electricity generated by the new offshore windfarms and electricity imported or exported through the Nemo interconnection. To that end, various types of work are on the schedule and will be carried out between April 2015 and the end of 2017.
In the first semester of 2016 the transportation capacity between Zomergem and Eeklo has doubled. The first high-tech pylons, which are considerably lower but with a higher voltage level compared to the standard pylons, have been set up at Damme and Bruges.

Boucle de l'Est (East Loop) – Belgium
Work started on Boucle de l'Est on the first of June 2015. The primary aim of the Boucle de l'Est project is to be able to accommodate the energy generated from renewable sources in the region. It will also contribute to enhancing the security of the electricity supply for the zone in question. Per end of June 2016 more than half of the work of the first phase of the project has been finished and commissioning is foreseen by the end of 2016.

Ostwind 1 - Germany
In August 2015, at the same time of the successful connection of the Baltic 2 offshore wind farm, 50Hertz started rolling out the Ostwind 1 offshore cable project. With completion anticipated in the summer of 2019, the 93 km cable route will connect the offshore wind farms in the Westlich Adlergrund Cluster (CWA) to the grid. Costing over €1 billion, the project represents the largest investment in the history of the company so far and another key step towards the culmination of the German energy transition.

ENTSO-E publishes its 10-year network development plan for the European network 2016

The transmission system operators from 34 countries have lent their cooperation to ENTSO-E and have contributed their unique expertise to drafting the TYNDP 2016 (10-year network development plan 2016). In this plan, ENTSO-E describes how the European electricity grid will be developed in the next 10 years.

The transmission system projects in the development plan are key to achieving the European climate and energy objectives on decarbonisation, competitiveness and security of supply. They are essential to achieve the European targets of 27% of renewables in the energy mix and 40% CO_2 reduction by 2030, as well as 10% interconnection by 2020.

With the launch of the TYNDP 2016 draft package, ENTSO-E started a public consultation running from 23 June to 9 September 2016. To improve the plan, ENTSO-E will thoroughly examine the comments received during the consultation and formulate a reply.

Successful debt capital market transaction by 50Hertz

In April, Eurogrid GmbH, under its EMTN programme, issued a corporate bond worth €750 million. The bond has a duration of 12 years and a coupon of 1.5%. The bond, which was placed with investors from over 25 countries, is also meant to finance the ambitious investment programme, entailing expenditure of about €3.5 billion over the next five years, in line with the objectives of the energy transition.

New RCF signed by Elia Transmission
Early July, a new revolving credit facility has been signed with Belfius, BNP Paribas, ING, KBC, Rabobank and RBS, and this for a total amount of €650 million. The RCF has a duration of 5 years and can be extended twice for one year.

4. Additional information as required by the Royal Decree of 14 November 2007

In the view of the impact of the 10-year government bond interest rate (OLO) on the Belgian result and the fact that the Belgian result for 2016 depends for an important part on parameters which will only be known or can only be calculated at the end of 2016 (e.g. the inflation rate for December 2016 and the beta factor of the Elia share) Elia Transmission cannot make any profit forecasts for 2016. We are however confident to continue the good operational performance in the second half of the year.
In Germany the result in 2016 will somewhat be under pressure as a result of a peak in the maintenance activities cycle, following the important investments of the last years.

5. Joint auditors' review report

The condensed consolidated interim financial statements for the period ended 30 June 2016 attached to this press release have been subject to a review by the Joint Auditors.

6. Financial calendar for 2016

Interim statement Q3 2016	*28 October 2016*
Publication of 2016 annual results	*24 February 2017*
Publication of 2016 Annual Report	*Early April 2017*
General Meeting of Shareholders	*17 May 2017*

7. Non-recurring items - reconciliation table

1H2016 (in million €)	Elia Transmission	50Hertz Transmission à 100%	Elia Group
EBIT – Non-recurring items			
Regulatory settlements prior year	(0.2)	(0.7)	(0.2)
Equity consolidation 50Hertz (60% net profit)	0.0	0.0	2.0
Energy bonuses	0.0	5.4	0.0
Total EBIT non-recurring items	**(0.2)**	**4.7**	**1.8**
Tax impact	0.1	(1.4)	0.1
Net profit – non-recurring items	**(0.1)**	**3.3**	**1.9**

1H2015 (in million €)	Elia Transmission	50Hertz Transmission à 100%	Elia Group
EBIT – Non-recurring items			
HGRT transactions	3.6	0.0	3.6
Regulatory settlements prior year	(0.2)	(0.3)	(0.2)
Equity consolidation 50Hertz (60% net profit)	0.0	0.0	4.5
Commissioning Baltic 2	0.0	6.2	0.0
Energy bonuses	0.0	4.7	0.0
Total EBIT non-recurring items	**3.4**	**10.6**	**7.9**
Net finance costs - APX transaction	1.0	0.0	1.0
Tax impact	0.1	(3.1)	0.1
Net profit – non-recurring items	**4.5**	**7.5**	**9.0**

The term "normalised" refers to performance measures (EBIT, Net Profit, EPS) before non-recurring items. Non-recurring items are either income or expenses which do not occur regularly as part of the normal activities of the company. They are presented separately because they are important for the understanding of the underlying sustainable performance of the company due to their size or nature.

About Elia:

The Elia Group is organized around two electricity transmission system operators (TSOs): Elia Transmission in Belgium and (in cooperation with Industry Funds Management (IFM)) 50Hertz Transmission, one of the four German transmission system operators, active in the north and east of Germany.

With over 2,000 employees and a grid comprising some 18,300 km of high-voltage lines serving 30 million end consumers, the Elia Group is one of Europe's top five TSOs.

It efficiently, reliably and securely transmits electricity from generators to distribution system operators and major industrial consumers, while also importing and exporting electricity from and to neighbouring countries. The Group is a driving force behind the development of the European electricity market and the integration of energy generated from renewable sources.

In addition to its TSO activities in Belgium and Germany, the Elia Group offers businesses a range of consultancy and engineering services through its subsidiary Elia Grid International (EGI).

The Group operates under the legal entity Elia System Operator, a listed company whose core shareholder is municipal holding company Publi-T.

ANNEXES

1. Declarations by responsible parties
2. Interim management report
3. Condensed consolidated interim financial statements:
   - Consolidated statement of financial position
   - Consolidated statement of profit or loss
   - Consolidated statement of profit or loss and other comprehensive income
   - Consolidated statement of changes in equity
   - Consolidated statement of cash flows
   - Notes to the condensed consolidated interim financial statements
4. Report of the joint statutory auditors on the review

ANNEXES:

1. Statement on the true and fair view of the condensed consolidated interim financial information and the fair overview of the interim management report

Chris Peeters, Chief Executive Officer and Chairman of the Management Committee, and Catherine Vandenborre, Chief Financial Officer, certify, on behalf and for the account of the company, that, to their knowledge,

a) the condensed consolidated interim financial information which has been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union, give a true and fair view of the equity, financial position and financial performance of the company, and the entities included in the consolidation as a whole,

b) the interim management report includes a fair overview of the information required under Article 13, §§ 5 and 6 of the Royal Decree of November 14, 2007 on the obligations of issuers of financial instruments admitted to trading on a regulated market.

Brussels, 25 August 2016

Catherine Vandenborre
Chief Financial Officer

Chris Peeters
Chairman of the Management Committee & Chief Executive Officer

2. Interim management report

- Key figures, reported in sections 1 and 2 of the press release
- Significant events in the first half of 2016, reported in section 3 of the press release
- Additional information pursuant to the Royal Decree of 14 November 2007, given in section 4 of the press release

3. Condensed consolidated interim financial statements

Consolidated statement of financial position

(in million EUR)	Notes	30 June 2016	31 December 2015
ASSETS			
NON CURRENT ASSETS		**5,458.9**	**5,306.6**
Property, plant and equipment	(7)	2,760.3	2,687.2
Intangible assets and goodwill		1,735.2	1,734.6
Trade and other receivables		43.0	16.4
Equity-accounted investees	(4)	852.0	793.4
Other financial assets (including derivatives)		67.4	73.3
Deferred tax assets		1.0	1.7
CURRENT ASSETS		**463.8**	**1,128.9**
Inventories		28.5	24.2
Trade and other receivables		307.4	326.1
Current tax assets	(11)	39.1	148.0
Cash and cash equivalents		79.6	626.4
Deferred charges and accrued revenues		9.2	4.2
Total assets		**5,922.7**	**6,435.5**
EQUITY AND LIABILITIES			
EQUITY		**2,406.4**	**2,414.4**
Equity attributable to owners of the Company		2,405.6	2,413.6
Share capital		1,512.8	1,512.8
Share premium		10.0	10.0
Reserves		173.0	138.7
Hedging reserve		(9.3)	(11.9)
Retained earnings	(6)	719.1	764.0
Non-controlling interest		0.8	0.8
NON CURRENT LIABILITIES		**2,723.3**	**2,730.3**
Loans and borrowings	(8)	2,585.9	2,605.4
Employee benefits		85.6	80.1
Derivatives	(9)	14.1	18.0
Provisions		20.4	17.5
Deferred tax liabilities		12.9	6.9
Other liabilities		4.4	2.4
CURRENT LIABILITIES		**793.0**	**1,290.8**
Loans and borrowings	(8)	57.5	604.3
Provisions		2.7	3.0
Trade and other payables		277.8	310.3
Current tax liabilities		7.2	2.0
Accruals and deferred income		447.8	371.2
Total equity and liabilities		**5,922.7**	**6,435.5**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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50hertz elia

Consolidated statement of profit or loss

(in million EUR) - Period ended	Notes	30 June 2016	30 June 2015 *
Continuing operations			
Revenue	(5)	360.4	369.1
Raw materials, consumables and goods for resale		(6.7)	(2.6)
Other income		44.7	23.6
Services and other goods		(146.5)	(162.2)
Personnel expenses		(71.1)	(69.8)
Depreciations, amortizations and impairments		(61.6)	(56.7)
Changes in provisions		(2.6)	2.4
Other expenses		(15.3)	(15.5)
Results from operating activities		**101.3**	**88.3**
Share of profit of equity accounted investees (net of tax)		46.9	59.5
Earnings before interest and tax (EBIT)		**148.2**	**147.8**
Net finance costs		**(45.6)**	**(44.0)**
Finance income		2.7	6.3
Finance costs		(48.3)	(50.3)
Profit before income tax		**102.6**	**103.8**
Income tax expense	(10)	(16.1)	(10.1)
Profit from continuing operations		**86.5**	**93.8**
Profit for the period		**86.5**	**93.8**
Profit attributable to:			
Owners of the Company		86.5	94.0
Non-controlling interest		0.0	(0.2)
Profit for the period		**86.5**	**93.8**
Earnings per share (EUR)			
Basic earnings per share		1.42	1.55
Diluted earnings per share		1.42	1.55

* Restated as mentioned in Note 2.c.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Consolidated statement of profit or loss and other comprehensive income

(in million EUR) - Period ended	Notes	30 June 2016	30 June 2015 *
Profit for the period		**86.5**	**93.8**
Other comprehensive income (OCI)			
Items that may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges		4.0	3.9
Related tax		(1.4)	(1.3)
Foreign currency translation differences of foreign operations		0.0	0.7
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations		(4.3)	4.1
Related tax		1.5	(1.4)
Other comprehensive income for the period, net of tax		**(0.2)**	**6.0**
Total comprehensive income for the period		**86.3**	**99.8**
Total comprehensive income attributable to:			
Owners of the Company		86.3	100.0
Non-controlling interest		0.0	(0.2)
Total comprehensive income for the period		**86.3**	**99.8**

* Restated as mentioned in Note 2.c.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Consolidated statement of changes in equity

(in million EUR)	Notes	Share capital	Share premium	Hedging reserve	Foreign currency translation	Reserves	Retained earnings	Total	Non controlling interests	Total equity
Balance at 1 January 2015		1,512.4	9.9	(16.8)	(0.6)	116.5	663.7	2,285.1	0.8	2,285.9
Profit for the period							94.0	94.0	(0.2)	93.8
Other comprehensive income				2.6	0.7		2.7	6.0		6.0
Total comprehensive income for the period				**2.6**	**0.7**		**96.7**	**100.0**	**(0.2)**	**99.8**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to Owners										
Shares issued		0.3	0.1					0.4		0.4
Share-based payment expenses		0.1						0.1		0.1
Transfer to legal reserve						22.1	(22.1)			
Dividends							(93.6)	(93.6)		(93.6)
Total contributions and distributions		0.4	0.1			22.1	(115.7)	(93.1)		(93.1)
Changes in ownership interests										
Establishment of subsidiary with non-controlling interest										
Total changes in ownership interests										
Total transactions with Owners		0.4	0.1			22.1	(115.7)	(93.1)		(93.1)
Balance at 30 June 2015*		**1,512.8**	**10.0**	**(14.2)**	**0.1**	**138.6**	**644.7**	**2,292.0**	**0.6**	**2,292.6**
Balance at 1 January 2016		1,512.8	10.0	(11.9)	0.1	138.8	763.8	2,413.6	0.8	2,414.4
Profit for the period							86.5	86.5		86.5
Other comprehensive income				2.6			(2.8)	(0.2)		(0.2)
Total comprehensive income for the period				**2.6**			**83.7**	**86.3**		**86.3**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to Owners										
Transfer to legal reserve						34.2	(34.2)			
Dividends							(94.2)	(94.2)		(94.2)
Total contributions and distributions						34.2	(128.4)	(94.2)		(94.2)
Total transactions with Owners						34.2	(128.4)	(94.2)	0.0	(94.2)
Balance at 30 June 2016		**1,512.8**	**10.0**	**(9.3)**	**0.0**	**173.0**	**719.1**	**2,405.6**	**0.7**	**2,406.4**

* Restated (see note 2.c to the condensed consolidated interim financial statements)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Consolidated statement of cash flows

(in million EUR) - Period ended	Notes	30 June 2016	30 June 2015 *
Cash flows from operating activities			
Profit for the period		**86.5**	**93.8**
Adjustments for:			
Net finance costs		45.6	44.0
Other non-cash items		0.0	0.1
Income tax expense		9.3	4.2
Profit or loss of equity accounted investees, net of tax		(46.9)	(59.5)
Depreciation of property, plant and equipment and amortisation of intangible assets		61.0	56.0
Gain on sale of property, plant and equipment and intangible assets		2.4	2.2
Impairment losses of current assets		0.8	0.8
Change in provisions		1.1	(6.2)
Change in fair value of derivatives		0.5	0.5
Change in deferred taxes		6.9	5.9
Cash flow from operating activities		**167.2**	**141.8**
Change in inventories		(5.0)	0.4
Change in trade and other receivables		16.9	(43.0)
Change in other current assets		(2.1)	(2.3)
Change in trade and other payables		(32.4)	(2.8)
Change in other current liabilities		78.8	105.4
Changes in working capital		**56.2**	**57.7**
Interest paid		(104.7)	(98.6)
Interest received		54.9	0.4
Income tax paid		54.0	(1.7)
Net cash from operating activities		**227.6**	**99.6**
Cash flows from investing activities			
Acquisition of intangible assets	(7)	(4.8)	(3.2)
Acquisition of property, plant and equipment	(7)	(128.3)	(135.0)
Acquisition of equity accounted investees	(4)	(11.8)	(6.9)
Proceeds from sale of property, plant and equipment		0.2	0.0
Proceeds from sales of investments	(9)	6.2	14.3
Loans to joint ventures		(26.6)	(10.4)
Net cash used in investing activities		**(165.1)**	**(141.2)**
Cash flow from financing activities			
Proceeds from the issue of share capital		0.0	0.4
Dividends paid (-)		(94.2)	(93.7)
Repayment of borrowings (-)	(8)	(540.0)	0.0
Proceeds from withdrawal of borrowings (+)	(8)	25.0	50.0
Non-controlling interests		(0.1)	(0.2)
Net cash flow from (used in) financing activities		**(609.3)**	**(43.5)**
Net increase (decrease) in cash and cash equivalents		**(546.8)**	**(85.1)**
Cash & Cash equivalents at 1 January		626.4	171.1
Cash & Cash equivalents at 30 June		79.6	86.0
Net variations in cash & cash equivalents		**(546.8)**	**(85.1)**

* Restated as mentioned in Note 2.c.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

1. General information

Elia System Operator SA/NV (hereinafter "the company" or "Elia") is established in Belgium, having its head office at Boulevard de l'Empereur 20, B-1000 Brussels.
Elia's core business is managing, maintaining and developing very-high-voltage grids (380 kV, 220 kV and 150 kV) and high-voltage grids (70 kV, 36 kV and 30 kV). It is responsible for transmitting electricity from power generators in Belgium, Germany and elsewhere in Europe to customers, particularly distributors and major industrial users.

These condensed consolidated interim financial statements of the company for the six months to 30 June 2016 contain the financial position and performance of the company and its subsidiaries (collectively referred to as "the Group") and the Group's interests in joint ventures.

The condensed consolidated interim financial statements were approved by the Board of Directors of Elia System Operator SA/NV on 25 August 2016.

2. Basis for preparation and changes to the Group's accounting policies

a. Basis for preparation
The condensed consolidated interim financial statements were prepared in accordance with IAS 34 *Interim Financial Reporting*, issued by the IASB as approved by the European Union.

The condensed consolidated interim financial statements do not include all the information and disclosures required for a complete set of IFRS financial statements and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2015. However, selected explanatory notes are included to explain events and transactions that are significant for an understanding of the changes in the Group's position and performance since the last annual consolidated financial statements.

b. New standards, interpretations and amendments adopted by the Group
The accounting policies applied when preparing the condensed consolidated interim financial statements are consistent with those used to prepare the Group's annual consolidated financial statements as of and for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016 as mentioned in note 3.8 accompanying the annual consolidated financial statements as of and for the year ended 31 December 2015. The application of Amendments to IFRS 11, IAS 16, IAS 38, IAS 41, IAS 27, IFRS 10, IFRS 12 and IAS 28, Amendments to IAS 1, and the annual improvements to IFRS 2012-2014 did not have an impact on the Group's condensed consolidated interim financial statements.

As the new standards and interpretations did not have an impact on the Group's condensed consolidated interim financial statements, no retrospective application of the change in accounting policies and retrospective restatement of previous financial statements was needed.

c. Restatements of comparative figures

(i) IFRIC 21

Property taxes chargeable to Elia Transmission are directly recognized at 100% as of the moment the ownership is certain (generally as of the 1st of January of each year). These costs, qualified as non-controllable costs in the regulatory framework, are however recorded as revenue through the settlement mechanism for the same amount, resulting in a zero profit or loss impact. For the period ended 30 June 2015 property taxes were recognized in profit or loss proportionally to the underlying period.
The Group restated comparative figures in these condensed consolidated interim financial statements to reflect this change in accounting for property taxes. The restatement for the period ended 30 June 2015 has an impact on the following sections within the statement of profit or loss:
- Revenue €+5.6 million (from €363.5 million to €369.1 million);
- Other operating charges €+5.6 million (from €9.9 million to €15.5 million).

(ii) REIMBURSEMENT RIGHTS

The Group restated comparative figures in these consolidated interim financial statements to reflect the change of accounting policies in respect of reimbursement rights applied for the first time in the Group's annual consolidated financial statements for the year ended 31 December 2015. The restatement for the period ended 30 June 2015 has an impact on the following sections within the statement of profit or loss:

- other income €+3.6 million (from €20.0 million to €23.6 million);
- personnel expenses €+2.9 million (from €66.9 million to €69.8 million);
- finance costs €-0.5 million (from €50.8 million to €50.3 million);
- income tax expenses €+0.3 million (from €9.8 million to €10.1 million);

And impacting the profit for the period by €+1.0 million.
The OCI decreased by €7.0 million (from €13.0 million to €6.0 million), resulting in a decrease of the total comprehensive income for the period by €6.0 million (from €105.8 million to €99.8 million).

3. Use of estimates and judgements

The condensed consolidated interim financial statements for the first half of 2016 were prepared using estimates and judgements as indicated in note 2.4 accompanying the annual consolidated financial statements as of and for the year ended 31 December 2015.

As a result of the new law about supplementary pension plans, which was published on 18 December 2015 and introduced changes that are expected to have an impact on the accounting for defined contribution plans, management decided to account for the defined contribution plans using the Projected Unit Credit Method (PUC) without projection of future contributions as of 1 January 2016, compared to the intrinsic value method, which was applied until the year ended 31 December 2015.
The impact of this change in accounting estimate amounted to €0.7 million, and was accounted for in personnel expenses as per 30 June 2016.

4. Subsidiaries, joint ventures and associates

No changes occurred within the consolidation scope in the 1st semester of 2016.

In the first half year Elia provided further funding to Nemo Link Limited in the amount of € 29.5 million, of which 40% via equity contribution and 60% via loans.

5. Segment reporting

5.1. Elia Transmission (Belgium)

Results Elia Transmission (in million EUR) - Period ended 30 June	2016	2015 *	Difference (%)
Total revenues and other income	405.1	392.7	3.2%
Depreciation, amortization, impairment and changes in provisions	(64.3)	(54.2)	18.6%
Results from operating activities	101.4	88.3	14.8%
Share of profit of equity accounted investees (net of income tax)	1.3	4.7	(72.3%)
Earnings before interest and tax (EBIT)	102.6	92.9	10.4%
Earnings before depreciations, amortizations, interest and tax (EBITDA)	166.9	147.2	13.4%
Finance income	2.7	6.3	(57.1%)
Finance costs	(48.3)	(50.3)	(4.0%)
Income tax expenses	(16.1)	(10.1)	59.4%
Profit attributable to the Owners of the Company	**40.9**	**39.1**	**4.6%**
Consolidated statement of financial position (in million EUR)	30 June 2016	31 December 2015	Difference (%)
Total assets	5,111.2	5,669.7	(9.9%)
Capital expenditures	137.5	343.0	(59.9%)
Net financial debt	2,563.8	2,583.4	(0.8%)

* Restated as mentioned in note 2.c.
EBIT = operating profit and share of profit of equity-accounted investees (net of income tax)
EBITDA = EBIT + depreciation/amortisation + changes in provisions
Net financial debt = non-current and current loans and borrowings less cash and cash equivalents

5.2. 50Hertz Transmission (Germany)

Results 50Hertz Transmission (Germany) (in million EUR) 100% - Period ended 30 June	2016*	2015*	Difference (%)
Total revenues and other income	655.5	657.9	(0.4%)
Depreciation, amortization, impairment and changes in provisions	(64.8)	(40.9)	58.4%
Results from operating activities	133.8	140.4	(4.7%)
Share of profit of equity accounted investees (net of income tax)	0.0	0.0	n.r.
Earnings before interest and tax (EBIT)	133.8	140.4	(4.7%)
Earnings before depreciations, amortizations, interest and tax (EBITDA)	198.6	181.3	9.5%
Finance income	0.6	1.1	(45.5%)
Finance costs	(23.0)	(8.6)	167.4%
Income tax expenses	(35.3)	(41.5)	(14.9%)
Profit attributable to the Owners of the Company	**76.0**	**91.4**	**(16.8%)**
Consolidated statement of financial position (in million EUR)	30 June 2016	31 December 2015	Difference (%)
Total assets	5,839.9	4,958.4	17.8%
Capital expenditures	177.1	902.0	(80.4%)
Net financial debt	940.9	915.6	2.8%

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

5.3. Segment reporting reconciliation

Consolidated results (in million EUR) - Period ended 30 June	2016 Elia Transmission (Belgium) (a)	2016 50Hertz Transmission (Germany) (b)	2016 Consolidation entries (c)	2016 Elia Group (a)+(b)+(c)
Total revenues and other income	405.1	655.5	(655.5)	405.1
Depreciation, amortization, impairment and changes in provisions	(64.3)	(64.8)	64.8	(64.3)
Results from operating activities	101.4	133.8	(133.8)	101.4
Share of profit of equity accounted investees, net of tax	1.3	0.0	45.6	46.9
Earnings before interest and tax (EBIT)	102.6	133.8	(88.1)	148.3
Earnings before depreciations, amortizations, interest and tax (EBITDA)	166.9	198.6	(153.0)	212.5
Finance income	2.7	0.6	(0.6)	2.7
Finance costs	(48.3)	(23.0)	23.0	(48.3)
Income tax expenses	(16.1)	(35.3)	35.3	(16.1)
Profit attributable to the Owners of the Company	**40.9**	**76.0**	**(30.4)**	**86.5**
Consolidated statement of financial position (in million EUR)	30 June 2016	30 June 2016	30 June 2016	30 June 2016
Total assets	5,111.2	5,839.9	(5,028.4)	5,922.7
Capital expenditures	137.5	177.1	(177.1)	137.5
Net financial debt	2,563.8	940.9	(940.9)	2,563.8

Consolidated results (in million EUR) - Period ended 30 June	2015 * Elia Transmission (Belgium) (a)	2015 * 50Hertz Transmission (Germany) (b)	2015 * Consolidation entries (c)	2015 * Elia Group (a)+(b)+(c)
Total revenues and other income	392.7	657.9	(657.9)	392.7
Depreciation, amortization, impairment and changes in provisions	(54.2)	(40.9)	40.9	(54.2)
Results from operating activities	88.3	140.4	(140.4)	88.3
Share of profit of equity accounted investees (net of income tax)	4.7	0.0	54.8	59.5
Earnings before interest and tax (EBIT)	92.9	140.4	(85.5)	147.8
Earnings before depreciations, amortizations, interest and tax (EBITDA)	147.2	181.3	(126.5)	202.0
Finance income	6.3	1.1	(1.1)	6.3
Finance costs	(50.3)	(8.6)	8.6	(50.3)
Income tax expenses	(10.1)	(41.5)	41.5	(10.1)
Profit attributable to the Owners of the Company	**39.1**	**91.4**	**(36.5)**	**94.0**
Consolidated statement of financial position (in million EUR)	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Total assets	5,669.7	4,958.4	(4,192.5)	6,435.6
Capital expenditures	343.0	902.0	(902.0)	343.0
Net financial debt	2,583.4	915.6	(915.6)	2,583.4

* Restated as mentioned in note 2.c.

All revenues are realized from external customers except for the intersegment revenues disclosed in note 13.

6. Dividends

On 17 May 2016, the shareholders approved payment of a gross dividend of €1.55 per share (i.e. a net dividend of €1.1315 per share), corresponding to a total gross dividend of €94.2 million.

7. Acquisitions and disposals of PPE

A net sum of €137.5 million was invested, and for more details we refer to section 2.a of part I of the press release.

8. Loans and borrowings

As per 30 June 2016, Elia used its commercial paper for an amount of €25.0 million, ending 18 July 2016.

The eurobond with maturity date April 2016 and the loan with the European Investment Bank with maturity date June 2016 which were presented under current portion of long-term borrowings, amounting to €539.2 million as per 31 December 2015 (nominal amount €540 million), have been paid back.

Long term borrowings as at 30 June 2016 comprise the following:

(in million EUR)	Maturity	Amount	Interest rate before hedging	Interest rate after hedging	Current proportion - fixed	Current proportion - variable
Shareholders Loan	2022	495.8	1.14%	2.95%	40.34%	59.66%
Eurobond issues 2004 / 15 years	2019	499.6	5.25%	5.25%	100.00%	0.00%
Eurobond issues 2013 / 15 years	2028	547.0	3.25%	3.25%	100.00%	0.00%
Eurobond issues 2013 / 20 years	2033	199.3	3.50%	3.50%	100.00%	0.00%
Eurobond issues 2014 / 15 years	2029	346.1	3.00%	3.00%	100.00%	0.00%
Eurobond issues 2015 / 8.5 years	2024	498.1	1.38%	1.38%	100.00%	0.00%
Total		**2,585.9**			**88.65%**	**11.35%**

9. <u>Financial instruments</u>

The table below shows a comparison of the carrying amount and fair value of financial instruments as at 30 June 2016 and the fair value hierarchy:

(in million EUR)	Carrying amount						Fair value			
	Designated at fair value	Fair value - hedging instruments	Held-to-maturity investments	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2015										
Other financial assets	13.5					13.5	13.3		0.2	13.5
Trade and other receivables				342.5		342.5				
Cash and cash equivalents				626.4		626.4				
Interest rate swaps used for hedging		(18.0)				(18.0)		(18.0)		(18.0)
Unsecured financial bank loans and other loans					(620.2)	(620.2)		(620.2)		(620.2)
Unsecured bond issues					(2,589.6)	(2,589.6)		(2,847.1)		(2,847.1)
Trade and other payables					(310.3)	(310.3)				
Total	**13.5**	**(18.0)**	**0.0**	**968.9**	**(3,520.0)**	**(2,555.7)**	**13.3**	**(3,485.4)**	**0.2**	**(3,471.9)**
30 June 2016										
Other financial assets	7.3					7.3	7.1		0.2	7.3
Trade and other receivables				350.3		350.3				
Cash and cash equivalents				79.6		79.6				
Interest rate swaps used for hedging		(14.1)				(14.1)		(14.1)		(14.1)
Unsecured financial bank loans and other loans					(553.3)	(553.3)		(553.3)		(553.3)
Unsecured bond issues					(2,090.1)	(2,090.1)		(2,501.7)		(2,501.7)
Trade and other payables					(277.8)	(277.8)				
Total	**7.3**	**(14.1)**	**0.0**	**429.9**	**(2,921.2)**	**(2,498.0)**	**7.1**	**(3,069.0)**	**0.2**	**(3,061.8)**

The above table does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

The decrease in Other financial assets can be explained by the sales of an investment (Monetary Sicav) by Elia Re for an amount of €6.2 million.

Fair-value hierarchy

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

The above fair value of interest rate swaps is classified as level 2, which means that the valuation is based on input from prices other than the stated prices. These other prices can be observed for assets or liabilities. This category includes instruments valued on the basis of listed market prices on active markets for such instruments; listed prices for identical or similar instruments on markets that are deemed insufficiently active; and other valuation techniques arising directly or indirectly from observable market data.

Estimate of fair value

Brokers' statements are used for interest-rate swaps. The statements are checked using valuation models or techniques based on discounted cash flows.

10. Income tax expense

Excluding share profit of equity-accounted investees, the effective income tax rate is 29.0% for the six months ended June 2016 compared to 22.8% for the six months ended June 2015.

The increase in effective tax rate is partially due to the lower percentage of notional interest deduction that can be applied in the current year (1.131% versus 1.63% in 2015) and the fact that the profit before taxes as per 30 June 2016 include less transactions which are taxed at a lower rate than the marginal rate of 33.99% (APX/HGRT transaction).

11. Current tax asset

As mentioned in note 7.9 accompanying the annual consolidated financial statements as of and for the year ended 31 December 2015, the decision of the Court of Appeal (in favour of Elia) was final by end of February 2016.
As a result of this decision the tax authorities confirmed the basis amount of €93.8 million to be reimbursed to Elia, together with an amount of moratorium interests of €52.7 million.

As per 30 June 2016 Elia recovered the moratorium interests and a portion of the basis amount amounting to €57.9 million, which explains the significant drop in the outstanding amount versus 31 December 2015. The residual amount of €35.9 million was recovered on 27 July 2016.

12. Settlement mechanism (Regulatory framework)

In Belgium, the final settlement arising from the previous tariff regulation mechanism for the year ended 31 December 2015 was accounted for in the financial statements for the period ended 30 June 2016 and affected the net profit for the period by €-145k.

In Germany, there are no changes in the regulatory uncertainties due to the final settlements arising from the tariff regulation mechanisms to be approved by the relevant authorities. In Belgium, a new regulatory framework is in place since the beginning of 2016. We refer to note 16 for more details.

As at 30 June 2016, there are no changes to the regulatory uncertainties due to the final settlements arising from the tariff regulation mechanisms to be approved by the relevant authorities, as described in note 9.2 accompanying the annual consolidated financial statements as of and for the year ended 31 December 2015.

13. Related parties

Controlling entities

The reference shareholder of Elia System Operator is still Publi-T. No transactions occurred with the reference shareholder for the six months ended 30 June 2016.

Transactions with key management personnel

The key management includes Elia's Management Committee. Members of the Management Committee do not receive stock options, special loans or other advances from the Group.

There were no significant transactions with entities in which key management exercise a significant influence (e.g. holding positions such as CEO, CFO and vice-chairmen of the management committee) in the first half of 2016.

There were various significant transactions with entities (mainly distribution system operators) in which Elia directors exercise a significant influence in the first half of 2016, all of them at arm's length.
Sales and expenses amounted to €27.0 million and €1.4 million respectively for the six months ended 30 June 2016.
As at 30 June 2016, there were outstanding trade receivables of €8.5 million and no significant outstanding trade debts.

Transactions with Group entities

There were no material transactions between Elia and the German segment, except for the transactions relating to International Grid Control Cooperation (hereafter "IGCC") signed at the end of 2012 between Elia System Operator and 50Hertz Transmission, representing revenues of €1.6 million in the first six months of 2016 (compared with €2.2 million for the first six months of 2015).
Beside these transactions various service agreements are in place with the German entities for consulting projects and other services, which generated an amount of €1.4 million sales of goods and €2.1 million of purchases of goods.

End of April 2016, Eurogrid GmbH paid a dividend of €99.3 million to Eurogrid International CVBA (compared with €98.7 million for the previous six months).

Details of transactions with other related parties (including the German segment) are shown below.

(in million EUR) – for the period ended	30 June 2016	30 June 2015
Transactions with joint ventures and associated companies	**10.7**	**2.3**
Sale of goods and service	13.6	3.8
Purchase of goods	(3.4)	(1.5)
Interest and similar revenue	0.4	0.0
Outstanding balances with joint ventures and associated companies	**20.7**	**10.1**
Non-current trade and other receivables	41.8	10.2
Current trade and other receivables	7.2	0.8
Current trade and other payables	(28.2)	(0.9)

The increase in sale of goods and service with joint ventures and associated companies can mainly be explained by the recharge to Nemo Link Limited of the pre-FID development costs Elia incurred amounting to €8.8 million and some other revenues resulting from transactions between Elia System Operator and 50Hertz Transmission (see above paragraph). The increase in current trade and other receivables is mainly related to an outstanding receivable of Elia Grid International GmbH on 50Hertz Transmission, amounting to €5.6 million.

The long-term debtors entirely represent the shareholder's funding which is provided by Elia System Operator to its joint venture Nemo Link Limited.

14. Seasonal fluctuations

The Group's profit profile follows a seasonal pattern, primarily due to the higher volumes of electricity consumed during the winter which have to be transmitted by the grid operator from power generators to distributors and large industrial customers, and also due to the impact of renewable energies, which are highly sensitive to weather conditions and hence have a considerable effect on revenue inflows.

15. Events after the balance-sheet date

There are no important events to report since 30 June 2016, which would affect the condensed consolidated interim financial statements.

We refer to the section 3 of part I of the press release for some information on the successful renegotiation of the credit facilities, amounting to €650.0 million, effective as of 8 July 2016.

16. Regulatory framework

Belgian regulatory framework

The new tariff mechanism 2016-2019 has been adopted for the first time in 2016.
Hereunder you can find a description of this new tariff setting mechanism:

(i) General principles of tariff setting

On 18 December 2014, CREG adopted a decision fixing the tariff methodology for the period 2016 through 2019 for the electricity transmission grid and electricity grid having a transmission function. This methodology is the basis on which transmission tariffs have been set for these 4 years. The tariff proposal for the regulatory period commencing 1 January 2016, based on the methodology described below, was approved by the CREG on 3 December 2015.
The previous "cost driven" tariff structure has been adapted to result in a more "service driven" structure, but this change has no major impact on the principle of cost coverage, nor on the remuneration of equity.
The tariffs are based on budgeted costs reduced by non-tariff revenues and based on the estimated volumes of electricity transported through the Grid.
Once approved, tariffs are published and are non-negotiable between individual customers and Elia Transmission.
There are different types of tariffs for different types of services:

- connection charges paid by customers under Connection Contracts;
- charges for the use of the network paid by customers under Access Contracts;
- balancing fees paid by ARPs to cover their imbalances; and
- a tariff for public service obligations or other taxes, levies, additional charges and contributions.

For tariff purposes, Belgian GAAP is applicable.
Elia Transmission may submit to the CREG, in the course of any four-year tariff period, a reviewed tariff proposal to reflect the offer of new services, amendments to the current services or exceptional circumstances and events beyond the control of Elia.

(ii) Parameters for the determination of tariffs

Tariff levels are determined based on the following key parameters: (i) fair remuneration, (ii) "Non-controllable elements" (not subject to an incentive mechanism), (iii) the predefined "Controllable elements" (subject to incentive mechanism), (iv) the "influenceable costs" (subject to an incentive mechanism under special conditions), (v) incentives, and (vi) settlement of deviations from budgeted values.

Fair remuneration

Fair remuneration is the return on capital invested in the network based on the CAPM (Capital Asset Pricing Model). It is based on the average annual value of the Regulated Asset Base ("RAB"), which is calculated annually, taking into account, inter alia, new investments, depreciations and changes in working capital requirements.
As from 1 January 2016, the following formula is the basis for determining fair remuneration, assuming consolidated capital and reserves represent more than 33 per cent of the RAB, as is the case at present:
A: [33 per cent. x average RAB x [(1 + α) x [(OLO n)+(beta x risk premium)]]] plus
B: [(S – 33 per cent.) x average RAB x (OLO (n) + 70 base points)]
for which:
- RAB(n) = RAB(n-1) + investments(n) – depreciation(n) – divestments(n) – decommissioning (n) +/- change in working capital need
- OLO (n) = the average rate of Belgian ten-year linear bonds for the year in question
- S = the consolidated capital and reserves/average RAB, in accordance with Belgian GAAP
- α = the illiquidity premium set at 10 per cent.
- Beta (β) = calculated over a historical three-year period, taking into account available information on Elia Transmission's share price in this period, compared with the Bel20 index over the same period. The value of the beta cannot be lower than 0.53.
- Risk premium: remains at 3.5 per cent.

In respect of A: The rate of remuneration (in per cent) as set by the CREG for year 'n' is equal to the sum of the risk-free rate, i.e. the average rate of Belgian ten-year linear bonds for the year in question (OLO(n)) and a premium for market risk for shares, weighted using the applicable beta factor. Tariff regulation set the risk

premium at 3.5 per cent. The CREG encourages Elia Transmission to keep its actual capital and reserves as close as possible to 33 per cent, this ratio being used to calculate a reference value of capital and reserves.
In respect of B: If the actual capital and reserves are higher than the reference capital and reserves, the surplus amount is balanced out with a reduced rate of remuneration calculated using the following formula: [(OLO n + 70 base points)].
The Electricity Act also provides that the regulator may set higher remuneration rates for capital that is invested to finance projects of national or European interest. This is a new provision of the tariff methodology 2016-2019 (See section 'Incentives').

Non-controllable elements

This category of costs (and revenues) over which Elia has no direct control are not subject to incentive mechanisms by the CREG, and are an integral part of the costs used to determine the tariffs. The tariffs are set based on forecast values for these costs.
The most important costs consist of the following items: depreciation of tangible fixed assets, ancillary services (except for the reservation costs of ancillaries excluding black start, which are referred to as "Influenceable costs"), costs related to legally obligatory line relocation, and taxes, partially compensated by revenues from non-tariff activities (for example cross-border congestion revenues). This also includes financial charges/revenues for which the principle of financial embedded debt has been confirmed. As a consequence, all actual and reasonable finance costs related to debt financing are included in the tariffs.

Controllable elements
The costs (and revenues) over which Elia has direct control are subject to an incentive regulation mechanisms, meaning that they are subject to the application of a productivity and efficiency improvement factor predefined by the CREG. This factor indicates the efforts that Elia must make to control such costs, which may positively or adversely impact the net profit. (See section 'Incentives')

Influenceable costs

The reservation costs of ancillary services, except for black start, are qualified as 'influencable costs' meaning that budget overruns or efficiency gains form an incentive within certain limits. (See section 'Incentives')

Incentive on 'strategic investment projects' (Mark-up on investments)

As the CREG considers that strategic investments (i.e. investments mainly aimed at enhancing EU integration) are of primary importance for the community, it agreed with Elia Transmission to introduce a mark-up on a selected list of projects. The remuneration is based on the cumulative actual amount dispensed, investment amounts are capped (per year and per project) and the mark-up is calculated on the actual amounts invested. The mark-up is defined taking into account an OLO of 0.5 per cent. If the actual interest rate of OLO is higher than 0.5 per cent, part of the mark-up is reduced accordingly (capped at OLO rate 2.16 per cent). 10 per cent of the total mark-up for each investment is subject to the timely realization of the relevant investment, meaning that 10% of the amount earned for a project is to be reimbursed if the project is not completed in due time.

Other Incentives

- "Controllable Elements": 50 per cent (pre-tax) of the difference (positive or negative) between the (adjusted) budgeted and the realised controllable elements affecting the net profit. This may positively or negatively impact the net profit without any cap or floor.
- "Influencable Costs": 15 per cent (pre-tax) of the difference between the costs of year Y and the costs of Y-1 adjusted by a number of factors affecting the net profit. As there is a predefined floor (- €2Mio) and cap (+ €6Mio), this may have a limited positive or negative impact on the net profit.
- Market integration: This incentive consists of the (i) enhancement of import capacity, and (ii) welfare increase from regional market coupling. Both elements can influence only positively the net profit (pre-tax) as the mechanism predefines a floor of €0 and a cap of €6 Mio for the import capacity and €0 to maximum €11 Mio for the welfare. (iii) The profit (dividends and capital gains) resulting from financial participations in other companies which the CREG has accepted as being part of the RAB, should be allocated as follows: for 40 per cent to future tariff reductions with the remaining 60 per cent. (before tax) attributable to Elia Transmission.
- 'Investment programme': This incentive is related to 2 objectives; '(i) optimal ex ante/ex post justification of project cost/project management by Elia Transmission towards the regulator (€0/2.5 Mio), and (ii) the timely realisation Stevin, Brabo, Alegro and 4th phase shifter (€0/1 Mio per project). Both elements could influence positively the net profit (pre-tax) of Elia Transmission as the mechanism predefines a floor and a cap for each of the objectives.

- Network availability: If the average interruption time ("AIT") is within the limits predefined by the CREG, the net profit (pre-tax) could be impacted positively with a maximum of €2Mio.
- Others: For R&D, operational subsidies are considered controllable income. As an incentive, an amount corresponding to max 50 per cent of subsidies is attributable to the net profit with a minimum of €0 and a maximum of €1 Mio.
- Discretionary: On an annual basis the CREG stipulates the objectives for this section. The incentive could influence positively the net profit (pre-tax) by between €0 and maximum €2 Mio.

Settlement of deviations from budgeted values

The actual volumes of electricity transmitted may differ from the forecasted volumes. If the transmitted volumes are higher (or lower) than those forecasted, the deviation is booked to an accrual account during the year in which it occurs and such deviation from budgeted values creates a "regulatory debt" (or a "regulatory receivable"). The same mechanism applies to Non-controllable elements.
The regulatory framework provides that the above mentioned deviations, at the end of the regulatory period, are taken into account by Elia transmission as part of the budgeted amounts for setting the tariffs for the next regulatory period.

Cost and revenue allocation between regulated and non-regulated activities

The tariff methodology for 2016 through 2019 describes a mechanism with regard to the development of the new activities by Elia Transmission and how Elia Transmission could be remunerated for these activities in the future. This agreement sets out:
- a mechanism to allocate costs accurately to different activities and to ensure that Belgian tariffs would not be adversely affected by Elia Transmission carrying out activities other than Belgian regulated activities; and
- a mechanism to ensure that the impact of financial participations in other companies not considered as part of the RAB by the CREG (such as, participations in regulated or non-regulated activities outside of Belgium, including the participation in 50Hertz, EGI) will be neutral for the Belgian tariffs. All costs and all revenues related to these activities should be borne by Elia Transmission.

German regulatory framework

In 2016, there were no significant changes to the regulatory framework in Germany (as described in note 9.2 to the annual consolidated financial statements as of and for the year ended 31 December 2015).

4. Report of the joint statutory auditors on the review

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Report of the joint statutory auditors on the review of the condensed consolidated interim financial statements of Elia System Operator NV/SA as of 30 June 2016 and for the six month period then ended

Introduction

We have reviewed the accompanying consolidated statement of financial position of Elia System Operator NV/SA (the "Company"), and its subsidiaries (jointly "the Group") as at 30 June 2016 and the related consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and explanatory notes, collectively, the "Condensed Consolidated Interim Financial Statements". These statements show a consolidated statement of financial position total of € 5,922.7 million and a profit for the period of € 86.5 million. The Board of Directors of the Company is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements as at 30 June 2016 and for the six month period then ended are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Information*, as adopted by the European Union.

Emphasis of certain matters

Without qualifying our conclusion, we draw attention to note 12 of the Condensed Consolidated Interim Financial Statements that provide a description of the uncertainties resulting from the final settlements arising from the tariff regulation mechanisms to be approved by the competent authorities.

Brussels, 25 August 2016

Joint statutory auditors

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