ANNUAL FINANCIAL REPORT 2017

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The notes on the Group's accounts for 2017 and 2016 were prepared on the basis of the financial statements in accordance with IFRS standards adopted by the European Union and in force during the applicable fiscal years, in accordance with regulation 1606/2002 of 19 July 2002 on international standards. The reader is accordingly invited to read the following information on the Group's financial position and results together with the Group's audited consolidated financial statements, prepared in accordance with IFRS for the fiscal years ended on 31 December 2017 and 31 December 2016.

1. KEY FIGURES

1.1. SIMPLIFIED CONSOLIDATED INCOME STATEMENT

	Fiscal year ended 31 December	
€m	**2017**	**2016**
Revenue from ordinary activities	**1,966.3**	**1,692.4**
Gross margin	**287.4**	**233.8**
Current operating income	**102.1**	**86.8**
Operating income	96.2	105.0
Financial income/(loss)	(14.9)	(11.2)
Net income from continuing operations	51.9	123.6
Net income	**51.9**	**123.6**

1.2. SIMPLIFIED CONSOLIDATED BALANCE SHEET

€m	Fiscal year ended 31 December 2017	2016
Goodwill	220.9	-
Intangible assets	70.2	50.2
Property, plant and equipment	718.2	76.2
Deferred tax assets	46.4	66.5
Other non-current assets	94.6	30.3
Non-current assets	**1,150.2**	**223.2**
Inventory	68.5	38.5
Trade receivables	523.6	413.3
Other current assets	301.1	185.7
Cash and cash equivalents	333.6	368.9
Current assets	**1,226.8**	**1,006.3**
TOTAL ASSETS	**2,377.0**	**1,229.5**
TOTAL SHAREHOLDERS' EQUITY	**395.9**	**217.5**
Other non-current financial liabilities	933.6	182.8
Other non-current liabilities	59.6	59.7
Deferred tax liabilities	46.1	13.1
Non-current liabilities	**1,039.3**	**255.6**
Trade payables	350.7	242.6
Other current financial liabilities	122.1	145.7
Other current liabilities	468.9	368.1
Current liabilities	**941.8**	**756.4**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,377.0**	**1,229.5**

1.3. SIMPLIFIED CONSOLIDATED STATEMENT OF CASH FLOW

€m	Fiscal year ended 31 December 2017	2016
Net cash flow from operating activities	**81.5**	**219.0**
Net cash flows from investing activities	**(477.4)**	**117.7**
Net cash flows used in financing activities	**360.6**	**(3.9)**
Net change in cash and cash equivalents	**(35.2)**	**332.8**
Cash and cash equivalents at beginning of year	**364.8**	**32.0**
Cash and cash equivalents at end of year	**329.6**	**364.8**

1.4. **INFORMATION ON CONSOLIDATED NET FINANCIAL DEBT**

	Fiscal year ended 31 december	
€m	**2017**	**2016**
Loans and financial debt - corporate	479.6	196.1
Loans and financial debt – project finance	465.3	-
Other financial liabilities at amortized cost	57.1	132.5
Financial liabilities at fair value through profit or loss settled in cash	6.5	-
Financial debt	**1,008.5**	**328.5**
Financing assets	(13.8)	-
Cash an d cash equivalents	(333.6)	(368.9)
Cash and cash equivalents	**(347.4)**	**(368.9)**
Margin calls paid	(15.8)	(3.2)
Net financial debt	**645.3**	**(43.6)**

As part of the presentation of its 2017 financial statements, and in order to take into account the consequences of the Quadran acquisition, the Group has amended the definition of its net financial debt, an aggregate not defined by accounting standards, and which is not directly visible in the Group's financial statements.

This change is intended to take into account:

- the existence, in the financial statements of the project companies (SPVs) carrying renewable assets, of cash reserve accounts (DSRA[1]), intended for debt service payments, and recorded as financial assets in the Group's balance sheet;
- the fact that only part of the earn-out associated with the acquisition and recorded in the financial statements in financial liabilities at fair value through profit or loss, will be paid in cash, the balance being paid by the issue of Direct Energie securities

Net financial debt thus now corresponds to the difference between financial debt (including margin calls received) and financial liabilities at fair value through profit or loss intended to be settled in cash on the one hand, and gross cash, including margin calls paid, and financial assets associated with cash reserve accounts on the other.

[1] *Debt Service Reserve Account*

1.5. **INFORMATION ON KEY OPERATIONAL DATA**

1.5.1. CUSTOMER BASE AND VOLUME SOLD

The key operational data for energy supply activities in France are as follows:

Operational data	Fiscal year ended 31 December	
	2017	**2016**
Information on number of customers		
Number of customers at end of period *(in thousands)*	**2,558**	**2,063**
Average number of customers for the period *(in thousands)*	**2,321**	**1,839**
Information on volumes sold		
Volumes of electricity sold *(in Twh)*	**16.0**	**13.9**
Volumes of gas sold *(in Twh)*	**6.6**	**5.4**

In Belgium, the Group had almost 58,000 customer sites as of end December 2017, and sold 520 Gwh over the period.

1.5.2. INSTALLED CAPACITY

At end 2017, the Group's installed capacity breaks down as follows:

- over 800 MW of thermal electricity production capacity, stable compared to end 2016, and associated with the Bayet and Marcinelle power plants;
- almost 550 MW gross electricity production capacity from renewable sources (435 MW net), following the acquisition of Quadran on 31 October 2017

1.5.3. INVESTMENTS

The total volume of investments made by the Company in 2017 was €701.3 million, compared with €64.5 million in 2016.

The main investments (property, plant and equipment, intangible and financial assets) made during the period are as follows:

Investments (consolidated) IFRS (in millions of €)	**Fiscal year 2017**	**Fiscal year 2016**
Intangible assets	46.5	32.9
Property, plant and equipment	654.7	31.6
Financial assets	0.1	0
TOTAL	701.3	64.5

These investments mainly concern:

- customer acquisition costs of €35.7 million in 2017 and €25.7 million in 2016. The Group capitalises its external customer acquisition costs, which are depreciated over a four year period based on the customer attrition rate experienced by the Company;

- other intangible assets of €10.8 million in 2017 and €7.2 million in 2016 mainly related to IT tools developed by the Company for its sales and management activities;

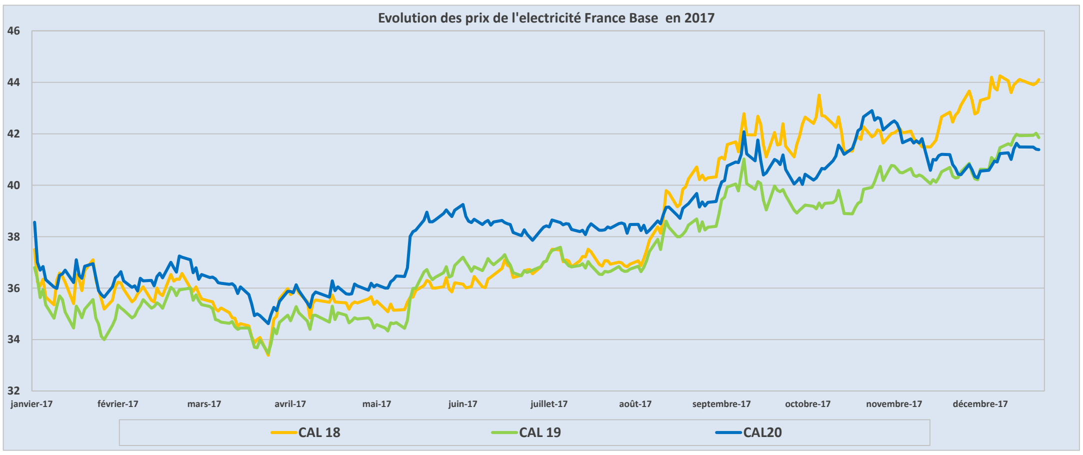
- property, plant and equipment for respectively €654.7m in 2017 and €31.6m in 2016, corresponding mainly in 2017 to the acquisition of Quadran (amounting to €599.1m in property, plant and equipment), and to investments in renewable energy production assets after the acquisition for €42.6m, and in 2016 to the acquisition of the Marcinelle power plant (amounting to €30.6m in property, plant and equipment).

2. HIGHLIGHTS OF THE YEAR 2017

2.1. MARKET CONDITIONS

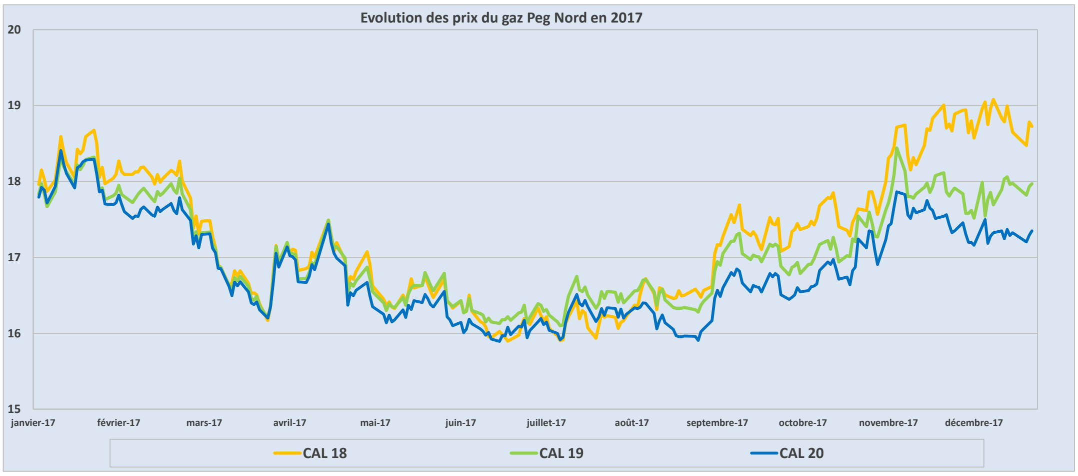
Market prices of gas and electricity showed contrasting trends in H1 2017, before significantly bouncing back during H2 2017.

At the end of 2017, forward electricity prices in France settled at almost €44/MWh for delivery in 2018 and close to €42/MWh for delivery in 2019, higher than the prices seen at the end of 2016 (around €38/MWh). After a significant decrease during the first days of January 2017, following the confirmation of nuclear plants being restarted after a temporarily shut down during H2 2016, the prices remained relatively stable over the first half-year. From August 2017, prices saw a very significant increase, due notably to a dynamic increase in gas prices.



Source: EEX

After a significant decrease during H1 2017, gas future prices on the PEG North market saw a dynamic rebound at the end of summer 2017 to reach almost €19/MWh at year end. This increase is directly linked to a significant rebound in oil prices which had fallen to less than $45 per barrel in summer 2017, before reachi ng over $65 at the end of 2017. This increase in the oil price is directly linked to the anticipation of a tightening supply -demand balance, due notably to an acceleration in global growth.



Source: *Powernext*

2.2. OTHER HIGHLIGHTS OF THE YEAR

Continued sales spurred on by growth in France and Belgium

In 2017, the Group continued its strong growth in its customer portfolio.

At 31 December 2017 the customer portfolio in France stood at nearly 1,968,000 customer sites in electricity and 590,000 customers sites in gas, representing increases of nearly 22% and 29% compared to customer portfolio figures at 31 December 2016, and an average increase of nearly 24%.

This growth, particularly strong with residential customers, concerned all market segments. At 31 December 2017, the Group supplied more than 398,000 non-residential sites compared to 359,000 at 31 December 2016.

This continued dynamic rate of growth, following the very high acquisition levels recorded in 2016, is driven by a portfolio of competitive and innovative offers in electricity and gas, the roll-out of several nationwide advertising campaigns, and the continued sponsoring, since 1 January 2016, of SA Vendée Cyclisme, Jean-René Bernaudeau's cycling team, competing under the name "Team Direct Energie".

In Belgium, the customer portfolio continued to grow at a rate slightly over 10% during 2017. At 31 December 2017, the Group thus had nearly 58,000 customer sites versus over 50,000 at 31 December 2016.

Acquisition of Quadran

On 15 June 2017, the Group announced the start of exclusive negotiations with Lucia Holding for the acquisition of all the Quadran shares, one of the main producers of renewable energies in France. This transaction’s scope includes the onshore wind, solar, hydraulic and biogas activities in metropolitan France and its renewable activities in the French Overseas Departments and Territories.

On 31 October 2017, as all of the conditions precedent had been cleared, Direct Energie formally acquired Quadran at the financial conditions set in the sale and purchase agreement signed on 31 July 2017.

- The transaction took place for an amount of €344 million (of which €41m in earn-out recognised on the signing date in respect of the new projects commissioned in 2017) that breaks down as follows:€303 million paid in cash at the signing date;
- €25 million paid in cash in January 2018; and
- 327,428 new Direct Energie shares for the benefit of Lucia Holding at the unit price of €49.205. This new share issue compensates the asset contribution of part of Quadran shares for a valuation of around €16 million that was subject to a shares auditor report.

The residual earn-out of a maximum amount of €72 million, mainly indexed on the commissioning pace of new generation assets by mid-2019, will be payable in cash for a maximum of €13 million and through the exercise of share subscription warrants attached to the new issued shares, up to €59 million. Their exercise, at a unit price of €49.205 will lead to the creation of 1,196,807 shares representing an approximate dilution of 2.65% of the share capital after the issue.

Under this business combination, the Direct Energie Group carried out the allocation of the acquisition price, including the earn-out assessed at its fair value on the acquisition date, to the assets, liabilities and possible liabilities of Quadran, assessed at their fair value. This allocation led to the recognition in the Group's financial statements of goodwill for a total of €220.9m, directly associated with the important pipeline of projects at different stages of development undertaken by Quadran.

Through this acquisition, Direct Energie firmly establishes its position as an integrated global player with a diversified energy production mix and a strategic supply position.

Following the recent acquisitions of two gas-fired power plants with a combined capacity of around 800 MW, the Direct Energie Group is moving forward with its vertical integration strategy, in line with its medium-term target of having a diversified production mix that complies with the objectives set by France in terms of energy transition. This merger is a major step for the Direct Energie Group in its objective to increase its production capacity and secure future margins against a backdrop of strong commercial growth.

At 31 December 2017, Quadran and its subsidiaries had a portfolio with a total gross capacity of around 550 MW (435 MW net based on the percentage holding).

In addition, Quadran also has significant development prospects, thanks to a pipeline of projects at various stages of maturity, representing over 2,000 MW.

To finance this operation, Direct Energie subscribed a syndicated loan for a total of €230m at a variable rate and a duration of five years, having been the subject of fixed-rate hedging for the entire amount.

It also carried out a capital increase under the conditions described below (***Change in share capital and shareholder structure of Direct Energie)*** for an amount close to €130 million in order to finance part of the Quadran acquisition.

Disposal of the holding in Direct Energie-EBM Entreprises

On 31 December 2017, Direct Energie sold 50% of share capital and voting rights of Direct Energie-EBM Entreprises, a company specialising in the sale of gas and electricity to customers with remote meter readings, to its shareholder, EBM Trirhena AG. In consequence, EBM Trirhena AG became sole shareholder of this company, renamed "EBM Energie France". This company was historically equity accounted in the Group's accounts.

For a transition period, Direct Energie will provide services for this company, especially in the areas of energy, accounting and invoicing.

Decisions of the Competition Authority

In a decision dated 21 March 2017, the Competition Authority ordered Engie to pay one hundred million euros in respect of anti-competitive practices - mainly with regard to Engie's use of its file of customers eligible for the regulated gas tariffs to promote its gas and electricity market offers.

In a definitive decision dated 7 September 2017, the Authority also approved Engie's commitments consisting mainly of ensuring the profitability of its gas market offers to residential and non-residential customers before and while marketing them, taking into account all costs incurred.

Decision of the Conseil d'Etat (France's highest administrative court) on gas regulated tariffs

In a decision of 19 July 2017, based on the ruling by the CJUE, the Council of State (*Conseil d'Etat*) confirmed that the principle of gas regulated tariffs contravened EU laws. It is now up to the French government to define the modalities for terminating this tariff regulation. In the meantime, the mechanism of monthly changes in regulated sales tariffs seems to be maintained.

Proposals of the Energy Regulation Commission

Following the 2016 decisions respectively by the Court of Appeal of Paris and Council of State (*Conseil d'Etat*) for the remuneration of suppliers for services provided on behalf of distribution network operators, the Energy Regulation Commission undertook in the second quarter of 2017 a consultation together with the electricity and natural gas distribution network operators and the suppliers, aimed at gathering their opinions, particularly on the level of compensation to be paid to suppliers for customer management activities performed in the name of and on behalf of the distribution network operators.

This consultation led to the adoption on 7 September 2017 of four draft proposals aimed at providing a framework for this supplier compensation, both for the past and from 1 January 2018. These proposals were definitively adopted during the fourth quarter 2017 (two were subsequently amended on 18 January 2018) setting for the future the compensation for suppliers, and for the past a ceiling to take into account this compensation by the public network access tariffs. Law no.2017-1839 of 30 December 2017 also introduced the principle of compensation for suppliers and empowered the Energy Regulation Commission to determine the level.

These proposals led to the recognition in the Group's consolidated financial statements of accrued income of €5.3m, in respect of compensation for the periods before 31 December 2017.

Resolution of disputes

During the second half-year 2017, the Group ended recourses that were submitted against several administrative and legal rulings in relation with the energy supply markets. In compensation, it received an amount of €24m.

Implementation of the French capacity mechanism

Following the decision of the European Commission in early November 2016 which deemed the capacity market proposed by France to be compatible with European regulations, the French capacity mechanism formally entered into force.

This means that, as of 1 January 2017, electricity suppliers are required to hold capacity certificates covering the needs of their customer portfolio at the peak of consumption, and that electricity producers obtain certificates, tradable on the market, as they become effectively available.

The first capacity auction, which took place on 15 December 2016, resulted in a price of approximately €10,000/MW for 2017.

During the second half-year 2017, two new auctions took place for 2018 and 2019. These resulted in prices of €9,300 and €13,000/MW respectively.

In 2018, auctions will take place, in particular to balance the different players in respect of 2017.

The price of the capacity will be passed on to the Group customers concerned, in accordance with contractual provisions.

Decision of the European Commission on the Landivisiau project

The European Commission has validated the annual capacity premium to be paid to Compagnie Electrique de Bretagne (a subsidiary jointly held by the Direct Energie Group, which has a 60% stake, and the Siemens Group) relating to the construction of a gas-fired power plant in Landivisiau.

The European Commission considered that this financial measure met the need to strengthen Brittany's electrical system and voltage stability, and that it complied with European Union rules on State subsidies.

Moreover, the procedural appeals against the project have not succeeded for the moment, the Compagnie Electrique de Bretagne is making every effort possible, notably by means of negotiating project contracts, to launch construction work during the second half of 2018.

Change in the share capital and shareholder structure of Direct Energie

During the 2017 fiscal year, 3,692,008 Company shares were created, raising the total amount of share capital to €4,519,086.80, compared to €4,149,886 at the start of the period.

738,318 new shares issued by the Company correspond to the exercise of stock options awarded to employees and executive officers of the Company or its subsidiaries.

On 11 July 2017, the Company decided to launch a capital increase with cancellation of shareholders' preferential subscription rights through a private placement and executed through an accelerated bookbuilding process, for 2,626,262 new shares. This increase was completed on 12 July, at a subscription price of €49.50 per share, i.e. a discount of 6.6% in relation to the weighted average trading price on 11 July. The gross proceeds from this capital increase amounted to €130 million. The settlement, delivery and admission to trading on Euronext Paris of the new shares took place on 17 July 2017.

This capital increase, mainly designed to finance part of the acquisition of Quadran, also aims to reinforce the Group's financial structure, support strong sales growth and increase its flexibility in a rapidly changing sector of activity.

Direct Energie's major shareholders subscribed for an amount of €30 million to the capital increase in the following proportions:

- Impala SAS subscribed 303,030 shares, bringing its total holding to 33.10% after the operation;
- AMS Industries subscribed for 202,020 shares, bringing its total holding to 18.6% after the operation;
- Luxempart subscribed for 101,010 shares, bringing its total holding to 9.6% after the operation; and

Xavier Caïtucoli, Chairman and CEO of the Company also subscribed for 40,404 shares through his holding company Crescendix, bringing his direct stake in the capital to 3.6% after the operation.

Lastly, 327,428 shares were created by the Company on 31 October 2017, following the acquisition of Quadran, and fully paid-up for the benefit of Lucia Holding. Each of these shares has four subscription warrants attached, exercisable at the unit price of €49.20, up to a maximum of 1,196,807 new shares to be issued, notably to pay the residual earn-out associated with the acquisition and the pace of commissioning of forthcoming projects by mid-2019.

During the 2017 fiscal year, the main movements within the shareholder structure were as follows:

- the sale by LOV GROUP INVEST of 2,000,000 Company shares to AMS INDUSTRIES on 4 April 2017. This acquisition cancels the pre-emptive right which AMS INDUSTRIES had under the terms of a shareholder agreement between the members of the shareholder concert made up of AMS INDUSTRIES, LOV GROUP INVEST, IMPALA SAS and EBM TRIRHENA AG (see AMF notice 215C0125 of 26 January 2015 and Section 6.2.3.1. of the 2016 Registration Document);
- the sale by EBM Trirhena AG of 2,100,000 shares, representing around 4.7% of the Company's share capital, on 16 November 2017 as part of a private placement.

During the same period, Direct Energie was informed of the crossing of legal thresholds pursuant to Article L.233-7 of the French Commercial Code as a result, inter alia, of the award or loss of double voting rights and the increase in the number of shares in Direct Energie's capital after the exercise of stock options, which will be described in the Company's next Registration Document.

Moreover, as part of the implementation of its share buyback programme decided by the Board of Directors on 13 December 2016, the Company decided to commission an investment services company for the acquisition of treasury shares within the limit of 250,000 shares for the purpose of their cancellation. In accordance with the decision of the Combined Shareholders' Meeting of 9 June 2016, the price of the shares purchased was capped at €50 per share. All 250,000 shares were purchased by the Company between 1 February and 24 April 2017.

The Board of Directors' meeting of 13 March 2017 decided to propose to the General Shareholders' Meeting of 30 May 2017, the renewal of this authorisation under the same conditions, with the exception of the maximum unit price which was increased by the Meeting to €70. Within this framework, a second mandate was granted to the same services company on 7 August 2017 for an additional volume of 150,000 shares, also for the purpose of their cancellation. All 150,000 additional shares were purchased by the Company between 3 August and 22 September 2017.

The cancellation of these treasury shares will be proposed to the next Board of Directors' meeting of the Company.

To the Company's knowledge, no other significant change in the distribution of its share capital or voting rights has taken place since 31 December 2017.

The Company's shareholding remains structured around a majority concert formed by Impala SAS, AMS Industries, Lov Group Invest and EBM Trirhena AG, representing some 61% of Direct Energie's capital and distributed as follows:

31 December 2017				
Shareholders	**Number of shares held**	**% of share capital**	**Number of voting rights****	**% of voting rights**
IMPALA SAS	**15 000 000**	**33.19%**	**26 497 070**	**36.61%**
AMS INDUSTRIES	**8 307 826**	**18.38%**	**14 323 632**	**19.79%**
LOV GROUP INVEST	**2 474 544**	**5.48%**	**4 949 088**	**6.84%**
EBM TRIRHENA AG	**2 067 870**	**4.58%**	**4 135 740**	**5.71%**
Majority concert	***27 850 240***	***61.63%***	***49 905 530***	***68.94%***
LUXEMPART	4 292 751	9.50%	8 348 769	11.53%
Crescendix SAS*	1 687 026	3.73%	2 723 302	3.76%
Management/FCPE DE	951 505	2.11%	1 482 791	2.05%
Treasury shares	401 852	0.89%	401 852	0.56%
Free float**	10 007 494	22.14%	9 523 635	13.16%
TOTAL	**45 190 868**	**100%**	**72 385 879**	**100%**

(*) % held directly or indirectly by Xavier Caïtucoli, current CEO, and his holding company Crescendix SAS.

(**) calculated using the definition of Euronext (i.e. excluding interests over 5% except mutual funds, retirement funds, and interests held by executives, managers, , employees via an FCPE mutual fund, shareholders bound by an agreement, the state, and treasury shares).

(***) number of theoretical voting rights determined according to the status of the shareholders in the books held by CACEIS as at 31 December 2017

3. ANALYSIS OF THE BUSINESS AND CONSOLIDATED INCOME STATEMENT FOR 2017 AND 2016

Analysis of the business and the consolidated income statement is performed at two levels for sales, gross margin and current operating income. It is first conducted at Group level, then for the operating segments and their various geographic regions. Operating profit and net income are only analysed at Group level.

3.1. OVERVIEW

The 2017 fiscal year saw a 16.2% increase in revenue from ordinary activities including Energy Management Margin, compared to the 2016 fiscal year, reaching €1,966.3 million, due to the increase in energy volumes sold combined with the Group's strong commercial development, the sharp rise in the contribution of the Group's generation assets, recognised under Energy Management Margin, as a result of improved market conditions in H1 2017, the acquisition of the Marcinelle power plant at the end of 2016, and lastly the entry into the Group's consolidation scope of Quadran and its subsidiaries on 31 October 2017.

Current operating income rose by more than 17%, settling at €102.1 million (up €15.3 million), confirming the relevance of the Group's vertical integration strategy. This increase is attributable to the significant contribution of the Group's generation assets, which accounted for nearly 25% of current operating income, while the contribution of the Bayet power plant was negative the previous year. Following the recording of several non-recurring impacts in 2016, the current operating income from the sale of gas and electricity decreased.

2017 net income amounted to €51.9m, down by €(71.7)m compared to 2016. This drop is due to the recognition in 2017 of an income tax expense of €(29.3)m, mainly due to a negative change in deferred tax for €(25.9)m. This is directly linked to the use of tax loss carry forwards, which had been activated historically, and the unwinding during the year of temporary differences associated particularly with the year-end settlements of forward purchases made on the markets which bore considerable deferred tax assets at the end of 2016. In 2016, the Group had conversely recorded tax income of €29.5m, mainly associated with the recognition of additional deferred taxes on temporary differences and Group tax loss carry forwards over a three-year period.

Moreover, the Group had recorded in 2016 a positive change in the fair value of financial derivatives operational in nature, a direct result of the rebound observed in market prices in the second half of 2016 for €21.4m, whereas this change was only €2.2m in 2017.

3.2. **SALES (UNDER "REVENUE FROM ORDINARY ACTIVITIES" ON THE INCOME STATEMENT)**

3.2.1. CHANGE IN GROUP REVENUE

€m	2017	2016	Change in value	Change in %
Revenue from ordinary activities	**1,966.3**	**1,692.4**	**273.9**	**16.2%**

Group revenue, including the Energy Management Margin, amounted to €1,966.3 million in 2017, up by €273.9 million, i.e. 16.2%.

This increase is attributable both to the growth in the electricity and gas supply market in France, reflecting the Group's ongoing commercial development, the acquisition of Quadran and its subsidiaries during the fourth quarter 2017, and to the sharp increase in its production segment, whose net contribution is recognised under the Energy Management Margin, and which benefited during the half year from the impact of the acquisition of the Marcinelle power plant at the end of 2016.

3.2.2. CHANGE IN REVENUE BY SEGMENT

€m		2017	2016	Change in value	Change in %
Commercial Trade		**1,900.5**	**1,680.6**	**219.9**	**13.1%**
	Of which France	*1,861.6*	*1,648.0*	*213.7*	13.0%
	Of which Belgium	*38.9*	*32.6*	*6.2*	19.1%
Production		**54.9**	**11.8**	**43.0**	**363.6%**
	Of which France	*37.0*	*11.8*	*25.2*	213.0%
	Of which Belgium	*17.8*	-	*17.8*	*n.a.*
Renewable energies		**10.9**	**-**	**10.9**	**n.a.**
Revenue from ordinary activities		**1,966.3**	**1,692.4**	**273.9**	**16.2%**

Commercial trade Segment

The commercial trade segment contributed €1,900.5 million to sales, up €219.9 million compared with 2016.

This increase is attributable for the most part to the gas and electricity supply business in France, in which revenue rose significantly to €1,861.6 million compared with €1,648 million in 2016 (+13%).

The Group's sales dynamic has allowed it to further expand its customer portfolio thanks to a sustained pace of acquisitions, amounting to more than 710,000 electricity sites and over 235,000 gas sites, showing an average increase of +21% compared to 2016, which had benefited from significant "Major Account" customer acquisitions (industrial and commercial multi-sites, and public authorities), following the termination of "yellow" and "green" regulated tariffs on 31 December 2015. Buoyed by these acquisitions, the customer portfolio at end 2017 rose to nearly 1,970,000 sites for electricity, an annual increase of 22%, and 590,000 sites for gas, up 29%. The average customer portfolio for 2017 thus increased by over 26% compared to 2016.

This growth in the customer portfolio has directly contributed to the increase in the volumes of electricity and gas sold, 16 TWh, an increase of 15% compared to 2016, and 6.6 TWh, up 22% respectively over the same period. As average temperatures were slightly higher than normal seasonal levels as well as temperatures recorded in H1 2016, the lower growth in volumes delivered compared to the growth observed specifically in the electricity customer portfolio is mainly due to the slowdown in acquisitions of "yellow" and "green" customers in the "Major Account" segment, compared to H1 2016 which had benefited from the impact of the termination of regulated prices in that segment. These customers, whose unit consumption is much higher than those of residential customers, had thus contributed to an increase of nearly 85% in volumes sold during 2016 compared to 2015, significantly higher than the increase in the customer portfolio over that period.

Revenue from electricity supply, which had been impacted during H1 2017 for customers benefiting from offers indexed to the regulated tariffs, by the unfavourable changes in regulated tariffs applied from 1 August 2016, which had led to a fall of 0.5% in the residential "blue" customer segment and of 1.5% in non-residential "blue" customers, conversely benefited from 1 August 2017 from an increase in Blue Residential and Non-Residential tariffs of an average of 1.7%.

However, revenue was penalised by the end of the service agreement contract with Enedis (formerly ErDF) on 30 September 2016, which had represented revenue of over €29m in 2016. Moreover, in 2016, the Group had recorded accrued income of €14.2m in respect of the tariff adjustments implemented by the publication of retroactive tariff decrees on 1 October 2016, and invoiced in 2017.

Revenue for the sale of gas benefited from the slight increase in regulated gas prices over the period, on the one hand, directly linked to movements in the market prices of gas and oil, the main components in the formula used to establish regulated prices, and on the other, from the changes in the components of this formula implemented by the Energy Regulation Commission from 1 July 2017. Between 2016 and 2017, this increase in regulated gas tariffs averaged around 2%.

Moreover, the volatility observed in the forward power market, particularly during the second half of 2017, led the Group to optimize its sourcing portfolio resulting in a net contribution of €6.2 million, recorded under Energy Management Margin. In 2016, the Energy Management Margin due to the sales activity in France had amounted to €3.6m.

Revenue generated from the gas and electricity supply business in Belgium amounted to €38.9 million in 2017, up €6.2 million compared to 2016, reflecting the growth of the customer portfolio. This portfolio comprised almost 58,000 sites at end 2017, up over 20% over the period.

The volumes sold increased slightly to reach 520 GWh 2017 compared to 480 GWh in 2016.

Production Segment

Following the acquisition on 30 December 2016 of Marcinelle Energie, a company which operates a combined cycle gas turbine (CCGT) power plant with an installed capacity of 400 MW in Charleroi, Belgium, the Production segment's 2017 revenue includes that company's first net contribution, recorded under Energy Management Margin. It amounts to €17.8 million.

The net contribution of the Bayet power plant sharply increased, rising from €11.8 million to €37 million under the direct effect of an increase in spreads captured in the hedging transactions, in accordance with the Group's vertical integration strategy, as a result of the sharp rise in electricity prices observed in H2 2016 and Q1 2017, despite the completion during summer 2017 of a major periodic maintenance operation which reduced its availability. In addition, the power plant benefited from the introduction of the capacity market as from 1 January 2017.

As in 2016, other production assets under development have not had material impacts on revenue in the segment in 2017.

Renewable Energies Segment

Due to the acquisition of Quadran and its subsidiaries on 31 October 2017, the Renewable Energies segment only contributed to two months of revenue, with the sale of energy produced by the wind, solar, hydraulic and biogas plants amounting to €10.9m over the period.

3.3. GROSS MARGIN

€m	2017	2016	Change in value	Change in %
Revenue from ordinary activities	**1,966.3**	**1,692.4**	**273.9**	**16.2%**
Cost of sales	(1,678.9)	(1,458.7)	(220.2)	15.1%
Gross margin	**287.4**	**233.8**	**53.6**	**22.9%**

3.3.1. CHANGE IN GROUP GROSS MARGIN

The Group's gross margin amounted to €287.4 million in 2017, up by €53.6 million, i.e. 22.9%. This increase was driven by the very strong increase in the contribution of the Production Segment; the Commercial Trade Segment showing moderate growth over the period due to the temporary positive impacts recorded in 2016.

3.3.2. GROSS MARGIN BY SEGMENT

€m		2017	2016	Change in amout	Change in %
Commercial trade		**227.2**	**224.6**	**2.6**	**1.2%**
	Of which France	*224.3*	*220.2*	*4.1*	*1.9%*
	Of which Belgium	*2.9*	*4.4*	*(1.5)*	*-33.5%*
Production		**49.7**	**9.2**	**40.6**	**442.8%**
	Of which France	*34.9*	*9.2*	*25.7*	281.0%
	Of which Belgium	*14.8*	-	*14.8*	*n.a.*
Renewable energies		**10.5**	**-**	***10.5***	**n.a.**
Gross margin		**287.4**	**233.8**	**53.6**	**22.9%**

Commercial trade Segment

The Commercial Trade segment contributed €227.2 million to gross margin, up €2.6 million compared with 2016.

This increase is exclusively attributable to the gas and electricity supply business in France, where the gross margin continued to rise, going from €220.2m in 2016 to €224.3m in 2017 (+1.9%), under the combined effects of growth in the customer portfolio and volumes sold, and despite the recognition in 2016 of non-recurring items.

The gross margin of the electricity supply business was thus penalised by the termination of the service agreement contract with Enedis (formerly ErDF) on 30 September 2016, which had represented a contribution to the gross margin of nearly €29.3 M during 2016, and by the recognition in 2016 of accrued income of €14.2m in respect of the tariff adjustments generated by the publication of retroactive tariff decrees on 1 October 2016, invoiced in 2017. These two impacts more than offset the positive impacts of the growth in the portfolio and volumes sold, against the backdrop of less favourable market prices than in 2016, and especially the first half-year, in terms of sourcing optimisation for the electricity supply business in France.

Besides, the change in regulated tariffs only had a limited impact on the gross margin during 2017, with the reduction in regulated tariffs applied from 1 August 2016, which had led to a fall of 0.5% in the residential "blue" customer segment and 1.5% in non-residential blue customers, being followed by an increase in Blue Residential and Non-Residential regulated tariffs of an average of 1.7% on 1 August 2017.

Concerning gas supply, in 2016, this activity has been negatively impacted by the recognition of a provision for loss-making contracts amounting to €31.6 million on the gas interconnection capacities secured by the Group between Belgium, the Netherlands and France, in light of the current regulatory environment and a bleak outlook for favourable developments in the short-term.

The comparable positive impact in 2017 was very largely offset, on the one hand, by the successive modifications decided by the Energy Regulation Commission for the calculation formula for regulated gas tariffs, from 1 July 2016, then from 1 July 2017, which, by reducing the commercial costs taken into account and the amendments added during the year to the different components of this formula, resulted in a significant decrease of the

Group's economic space with customers whose offers are indexed to these regulated tariffs, and on the other, by a much less favourable market price environment than the first months of 2016 in terms of sourcing optimisation, thereby notably affecting the unit margins recorded for that activity.

The gas and electricity supply business in Belgium generated a gross margin of €2.9 million in 2017 (compared to €4.4 million in 2016). The ongoing growth in the customer portfolio and volumes sold was more than offset by a highly competitive environment and also much less favourable market prices compared to the first half-year 2016, in terms of sourcing optimisation, which weighed significantly on the unit margins of the activity.

Production Segment

The Production Segment's gross margin amounted to €49.7m in 2017, up €40.6m compared to 2016, due to the acquisition of the Marcinelle power plant in Belgium (+€14.8m), and the increase in the net contribution of the Bayet power plant (+€25.7m), as a direct result of the vertical integration strategy, which enables to capture higher spreads in the frame of internal transfers at market prices between the different segments, in a much more favourable market price environment for gas thermal assets.

Renewable Energies Segment

Due to the acquisition of Quadran and its subsidiaries on 31 October 2017, the contribution of the Renewable energies segment to gross margin is similar to that of revenue, amounting to €10.5m over the period.

3.4. **CURRENT OPERATING INCOME**

€m	2017	2016	Change in value	Change in %
Gross margin	**287.4**	**233.8**	**53.6**	**22.9%**
Personnel expenses	(40.0)	(34.6)	(5.4)	15.5%
Other operating income and expenses	(107.3)	(83.2)	(24.1)	28.9%
Depreciation and amortisation	(38.1)	(29.2)	(8.9)	30.5%
Current operating income	**102.1**	**86.8**	**15.3**	**17.6%**

3.4.1. CHANGE IN GROUP CURRENT OPERATING INCOME

The Group's current operating income amounted to €102.1 million in 2017, up 17.6% for the period. This growth is largely attributable to the Production segment, the commercial trade segment’s contribution showing a decrease due to higher operating expenses partly linked to the impact of non-recurring items in 2016. The renewable energies segment provided a slightly positive contribution, following the entry into the scope of consolidation of Quadran and its subsidiaries on 31 October 2017.

3.4.2. CHANGE IN CURRENT OPERATING INCOME BY SEGMENT

€m		2017	2016	Change in value	Change in %
Commercial Trade		**75.8**	**92.5**	**(16.7)**	**-18.1%**
	Of which France	*82.8*	*97.3*	*(14.5)*	-14.9%
	Of which Belgium	*(7.0)*	*(4.8)*	*(2.2)*	46.0%
Production		**25.3**	**(5.7)**	**31.0**	**-542.2%**
	Of which France	*19.1*	*(5.7)*	*24.8*	-433.5%
	Of which Belgium	*6.2*	*-*	*6.2*	*n.a.*
Renewable energies		**1.0**	**-**	***1.0***	**n.a.**
Current operating income		**102.1**	**86.8**	**15.3**	**17.6%**

Commercial trade Segment

The Commercial trade segment's contribution to current operating income was €75.8 million, down €16.7 million compared to 2016. This was mainly attributable to the supply business in France, for which current operating income amounted to €82.8m in 2017 compared to €97.3m in 2016 (€(14.5)m), impacted by non-recurring items. The increase in this activity's operating expenses during 2017 thus exceeded that of the gross margin for the period.

Employee expenses in the Commercial Trade segment in France decreased by €1.1 million. Following both the strengthening of the sales teams in 2015 to effectively address the scheduled termination of regulated tariffs for some business customers on 31 December 2015, and the build-up of the customer service team to support the customer portfolio's growth, the increase in the segment's workforce remained limited, reflecting the productivity efforts made by the Group to control its payroll expenses and ensure the activity's ongoing profitable growth. Headcount was 356 employees at 31 December 2017, compared to 333 employees at 31 December 2016. The reinforcement of Direct Energie SA's equity during 2017 resulted in an automatic decrease in the profit-sharing expenditure, whilst expenses associated with the allocation of share subscription options reduced significantly.

Other operating income and expenses amounted to €(83.1)m in 2017 compared to €(66.8)m in 2016, up €(16.3)m. After signing in the second quarter of 2016 an amendment to its distribution contract with GRDF including the implementation of the principle, established by the decision of the CoRDiS of 19 September 2014, that the natural gas supplier should not assume outstanding bad debt associated with distribution costs to be borne by the distribution network operator (GRDF), both for the future and the past, GRDF reimbursed the Group almost €10 million for unpaid distribution costs prior to 31 December 2015.

Restated for this non-recurring impact, the change in other operating income and expenses is €(6.5)m. It is mainly explained by:

- a rise of €(16.4)m in external service provider expenses, mainly related to the management of the residential customer portfolio, which grew significantly in 2017, an increase in marketing costs to support growth, the implementation of invoicing associated with the retroactive tariff adjustment decided by the public authorities in H2 2016, and lastly, advisory expenses incurred for various external growth projects studied by the Group during the year, and which were not completed.
- the impact of bad debts net of changes in provisions amounting to €(30.8) million over the period compared to €(13.1) million for the same period in 2016, excluding the impact of the GRDF reimbursement in 2016. This increase, which followed on from excellent operational performance in 2016, is attributable to several factors. Firstly, the continued growth in the Group's customer portfolio, which, associated with the implementation of the retroactive tariff adjustment across the concerned

customer segments, generated an automatic increase in bad debts. Next, a significant growth in the impact of bad debts associated with the Domestic Tax on the End Consumption of Electricity (TICFE) payable by the Group, while bad debts associated with the previous tax, Contribution to the Public Electricity Service (CSPE), which the TICFE replaced, were recoverable. Due to the fact that the tax came into force on 1 January 2016, the bad debts related to this tax were gradually recognised in 2016, once the corresponding amounts had become due, thereby resulting in a comparable negative effect between 2017 and 2016. Moreover, the increase of almost 35% in the Domestic Tax on the Consumption of Natural Gas, payable by the Group, between 2016 and 2017, automatically weighed on the bad debts associated with the gas sales activity. Lastly, during H2 2017, the Group undertook significant clearance work on its overdue receivables, resulting in a very significant increase of transfers to irrecoverable debts compared to 2016;

- the fact that, during the second half-year 2017, the Group ended recourses that were submitted against several administrative and legal rulings in relation with the energy supply markets. In compensation, it received an amount of €24m, recorded in other operational income.

The negative impact of depreciation on current operating income in the segment increases by nearly €(3.3)m in 2017 compared to 2016, in line with the continued acceleration of the commercial growth which automatically leads to higher capitalised acquisition costs.

Current operating income for the Commercial trade segment in Belgium totalled €(7.0) million, against €(4.8) million in 2016. This deterioration in current operating income is mainly due to the contraction of gross margin observed over the period, along with poorer performance concerning bad debt recovery. In contrast, external service provider expenses, due notably to the marketing and customer relation management functions, were controlled in 2017.

Production Segment

Current operating income for the Production segment amounted to €25.3 million in 2017 compared to a loss of €(5.7) million in 2016. This growth is attributable both to the good performance of the Group's power plants particularly during the first half year 2017, in a favourable market for gas thermal plants, and in line with the vertical integration strategy that relies on internal sales at market price between the different segments, and also the control of recurring management and maintenance expenses of these production assets.

Renewable Energies Segment

Despite the consolidation from 31 October 2017, the renewable energies segment contributed €1m to the Group's current operating income, after taking into account the impact of amortisation of the fair value adjustment of the depreciable assets of Quadran and its subsidiaries, resulting from the impact of the business combination recognised by the Group at the date of acquisition.

3.5. **OPERATING INCOME**

€ m	2017	2016	Change in value	Change in %
Current operating income	**102.1**	**86.8**	**15.3**	**17.6%**
Change in fair value of financial derivatives operational in nature	2.2	21.4	(19.2)	-89.9%
Disposals of non-current assets	(0.8)	(2.5)	1.7	-69.1%
Impairment of non-current assets	-	(0.1)	0.1	-100.0%
Income and expenses related to changes in scope of consolidation	(7.3)	(0.6)	(6.7)	1062.8%
Operating income	**96.2**	**105.0**	**(8.8)**	**-8.4%**

The change in fair value of Energy derivative financial instruments operational in nature represents income of €2.2 million in 2017 compared to income of €21.4 million in 2016. This year-on-year change, which has no cash impact, is mainly due to the change in energy prices during the year.

In 2017, this net positive impact comprises a positive impact related to the increase in the fair value of gas derivative financial instruments, mainly associated with the increase in market prices observed over the second half year as the Group is structurally a buyer, notably for its production plants, and a negative impact of the change in fair value of the electricity derivative financial instruments, related to the rise in market prices observed during 2017 and particularly impacting the fair value of seller's positions associated with production assets.

In 2016, the positive net impact of these instruments comprised a negative impact related to the decrease in the fair value of gas derivative financial instruments, associated with the unwinding over the period of oil & gas hedging swaps whose fair value was strongly positive at 31 December 2015, and a strong positive impact from the change in fair value of electricity derivative financial instruments, directly related to the rise in market prices during 2016, above the closing prices in 2015, after having hit low points in the first quarter.

Disposals of non-current assets in 2017 consisted mainly of writing off fixed assets related to the Bayet power plant, as part of the major periodic maintenance operation carried out during the summer. Disposals of non-current assets in 2016 also mainly corresponded to writing off fixed assets related to another historic combined cycle gas turbine Group project.

In 2016, impairment of €(0.1)m exclusively concerned equity investments in unconsolidated companies, recognised as available-for-sale assets, for which indications of impairment had been observed.

Income and expenses associated with changes in scope of consolidation, which amount to €(7.3)m in 2017, mainly correspond to the acquisition costs of Quadran and its subsidiaries, and the negative impact associated with the disposal at the end of December 2017 of the company Direct Energie EBM Entreprises, historically accounted for by the equity method. In 2016, they corresponded to the acquisition costs of the Marcinelle power plant.

Given these non-recurring items, operating income in 2017 totalled €96.2 million compared to €105.0 million in 2016.

3.6. **NET INCOME AND NET INCOME PER SHARE**

€ m	2017	2016	Change in value	Change in %
Operating income	**96,2**	**105,0**	**(8,8)**	**-8,4%**
Cost of net debt	(14,4)	(10,8)	(3,6)	33,3%
Other financial income and expenses	(0,5)	(0,4)	(0,1)	19,9%
Financial income / (loss)	**(14,9)**	**(11,2)**	**(3,7)**	**32,8%**
Corporate income tax	(29,3)	29,5	(58,8)	-199,6%
Share of net income from companies accounted for by the equity method	(0,1)	0,4	(0,4)	-118,8%
Net income from continuing operations	**51,9**	**123,6**	**(71,7)**	**-58,0%**
Net income from discontinued operations	-	-	-	n.a.
Net income	**51,9**	**123,6**	**(71,7)**	**-58,0%**
of which Net income, Group share	51,9	123,6	(71,7)	-58%
of which Net income, minority interests	0,0	-	0,0	n.a.

The change in net financial income/(loss), which decreases from a net expense of €(11.2)m in 2016 to a net expense of €(14.9)m in 2017, is mainly due to (i) the issue of a third private placement bond in a single tranche of €68m, bearing interest at the rate of 3.25% during Q4 2016, which produced its full-year impact in 2017, (ii) the costs associated with the set-up of external credit facilities in Q2 2017 to secure the acquisition of Quadran, (iii) the interest associated with the acquisition loan drawn from 31 October 2017, and (iv) a drop in the Group's interest income due to persistently low interest rates. On top are added the interest associated with the financing of projects and the corporate debt of the Quadran scope over the two months following its acquisition.

These various items more than offset the impact of the very significant drop in short-term financing used by the Group over the period compared to 2016. During this period, against a backdrop of a significant increase in margin calls related to the fall in wholesale electricity prices, the Group drew down short-term credit lines, including shareholder loans for €55 million, which were repaid during the fourth quarter of 2016, and a credit line with the Group's energy market clearer for €60 million, with a significant impact on the Group's interest expense.

In 2017, the Group recognised a tax expense payable of €(3.5) million, in line mainly with the reduction in the net income before tax of the tax consolidation group, of which Direct Energie is the parent company, and given the use of tax loss carryforwards. Deferred tax amounts to an expense of €(25.9)m. This is directly linked to the use of tax loss carryforwards, which had been activated historically, as the Group did not modify its three-year activation timeline for the recognition of tax loss carryforwards implemented in 2016, and to the settlement during the year of temporary differences associated particularly with the year-end unwinding of forward purchases made on the markets which bore considerable deferred tax assets at the end of 2016. The impact of the acquisition of Quadran and its subsidiaries on the Group's income tax expense was negligible over the fiscal year.

In 2016, the Group had recognised a tax expense payable of €(11.5)m in line with the improvement in the net income before tax of the tax consolidation group, of which Direct Energie is the parent company, and given the use of tax loss carryforwards. The impact of deferred tax on the fiscal year was income of €40.9 million, including, on the one hand, the activation of additional tax loss carryforwards in line with the improved outlook for future results, which led the Group to proceed with these activations over a three-year period against two years at the end of 2015, in the amount of €13.3 million, and on the other hand, the net change in deferred tax on temporary differences, recognised over the same timeframe, for €27.6 million.

In 2017, and given the acquisition on 31 October of the equity accounted entities within the Quadran scope, the share of net income from companies accounted for by the equity method remains insignificant at €(0.1)m compared to income of €0.4m in 2016.

Consolidated net income for the 2017 fiscal year showed a profit of €51.9 million, compared with a profit of €123.6 million in 2016.

€ m	2017	2016	Change in value	Change in %
Net income, Group share	**51.9**	**123.6**	**(71.7)**	**-58.0%**
Average outstanding shares	43.0	41.1	1.9	4.5%
Average diluted outstanding shares	45.1	43.4	1.7	4.0%
Earnings per share	**1.21**	**3.01**	**(1.8)**	**-59.8%**
Diluted earnings per share (in €)	**1.14**	**2.85**	**(1.7)**	**-59.6%**

4. ANALYSIS OF RESULTS OF DIRECT ENERGIE SA

4.1. RESULTS FROM DIRECT ENERGIE SA

The accounting methods and principles used to prepare the company financial statements at 31 December 2017 are identical to those used in the company financial statements at 31 December 2016, with the exception of the application of the ANC 2015-05 rule concerning forward financial instruments and hedging transactions from 1 January 2017, which has no impact on the company's opening shareholders' equity. These accounting methods and principles comply with the accounting methods and principles defined by ANC regulation 2014-03 of 5 June 2014.

Turnover totals €3,820.7 million for 2017 compared with €2,749.7 million in the previous year.

This increase of €1,071.0 million, i.e. 38.9%, is mainly due to:

- an increase in total revenue related to the electricity and gas supply business, including billing for distribution and other income related to the business (excluding energy consumption taxes), of €250.7 million. This is mainly due to dynamic growth in the number of gas and electricity customers sites, and related volumes;
- an increase in the amount of energy consumption taxes of €126.9 million subject to rebilling to the end customer, again mainly related to the significant growth in the volumes sold, and to the increase in Domestic Tax on the Consumption of Natural Gas by 36% between 2016 and 2017;
- revenue growth of €693.5 million in wholesale activities, a direct result of the progression of the load curve which leads to increasing volumes resold on the wholesales market in order to balance its physical positions throughout 2017, but also a growth in the volumes produced by the two electricity generation plants owned by the Group in Bayet and Marcinelle, particularly following the entry of Marcinelle within the scope of consolidation at 1 January 2017. Direct Energie carries out market operations to optimise the volumes produced by these power stations and not necessary to the load curve of its customers.

Operating profit for 2017 is positive at €2.6 million, compared with €189.6 million in 2016. This decrease is mainly due to a significant deterioration in gross margin of €167.9 million, directly related to the 2016 impact of the year-end unwinding of calendar forward purchases products and their substitution by quarterly and monthly products, which had been recognised in the income statement for the amount of €93.3 million, an impact directly related to the increase in electricity prices observed in 2016. Correspondingly, these unwindings penalised the company's supply cost by €(42.0) million in 2017. In addition, the end, from 30 October 2016, of the service provision contract with Enedis, which represented a contribution of €29.3 million, created a negative comparative effect in 2017.

In addition are the effects of an increase in other purchases and external expenses of €(26.6) million, directly related to the growth of the company's customer portfolio, as well as an increase in fees incurred on external growth projects led by the Group in 2017, including Quadran.

On the other hand, there was a decrease of €17.9 million in depreciation and provisions, a direct result of the provision in 2016 for loss-making contracts on the transit capacities between Belgium, the Netherlands and France recorded by the Group. The associated positive comparative impact on 2017 is partially offset by an increase in net provisions for bad debts, a result of the growth in the customer base, the implementation of retroactive billing, the full year impact on 2017 of the replacement of the CSPE by the TICFE in 2016, and the increase of the TICGN between 2016 and 2017.

Net financial loss improved slightly in 2017, amounting to €(7.7) million versus €(9.8) million in 2016. This is mainly attributable to the recognition of €11.6 million related to optimisation operations carried out by the Group in 2017 on the energy markets. This more than offsets the increase of €(6.5) million in financial expenses, associated both with an increase in interest expense, as a result of the introduction of a new bond issue at the end of 2016, and the set up of a bank loan for the acquisition of Quadran, as well as an increase in financial provisions on shares of the company's subsidiaries, associated with their future development prospects.

The extraordinary income is a gain of €23.2 million in 2017, resulting mainly from the settlement of disputes as described in note 2.2 compared to a loss of €(0.2) million in 2016..

Profit-sharing is flat against an expense of €(2.0) million in 2016. This change is directly linked to the combined effect of the decrease in Direct Energie's earnings and the increase in equity during the period, notably associated with the capital increase carried out in the summer of 2017 and the retained earnings from 2016.

Income tax amounts to an expense of €(1.3) million in 2017 against €(11.4) million in 2016, following the significant decline in the company's net income before tax.

Thus, the net gain for 2017 is €16.7 million, compared with a €166.2 million gain in 2016.

4.2. **ALLOCATION OF NET EARNING AND DIVIDEND DISTRIBUTION**

The Board of Directors will propose to the General Shareholders' Meeting of 29 May 2018 the allocation of net earnings for the fiscal year ended 31 December 2017 and a dividend distribution as follows:

- Net income for the year amounting to €16,747,799.17;
- Retained earnings in the amount of €169,820,127.98;
- Providing distributable net profit of €186,567,927.15 to be allocated as follows:
    - to the legal reserve for the amount of €36,920.08,
    - to payment of a dividend in the nominal amount of €0.35 per share,
    - the balance of distributable net profit to be allocated to "Retained earnings".

The maximum number of shares entitled to a dividend in respect of the fiscal year ended 31 December 2017 amounts to 46,156,657 corresponding to the sum of the 44,789,016 shares making up the share capital at 31 December 2017, and 1,367,641 shares liable to be issued between 1 January 2018 and the ex-dividend date in respect of the exercise of stock options granted by the Board of Directors.

The Board of Directors will propose to the General Shareholders' Meeting the distribution of an amount of €0.35 per share with dividend entitlement. The ex-dividend date will be 1 June 2018 and the dividend will be payable as of 5 June 2018 on the basis of positions established as of the evening of 4 June 2018.

It is specified that the total amount of dividends distributed is required to take into account all existing shares on the ex-dividend date and that, in the event that, on that date, (i) the Company held some of its own shares, or that (ii) all the shares liable to be issued as a result of the exercise of stock options granted by the Board of Directors have not actually been issued, then the amount corresponding to dividends not paid in respect of the shares referred to in (i) and (ii) will be allocated to the "Retained earnings" account.

4.3. DIVIDEND DISTRIBUTION DURING THE LAST THREE FISCAL YEARS

In 2017, the Company paid its shareholders a dividend of €0.25 per share for fiscal year 2016, in the total amount of €(10.4) million.

In 2016, the Company paid its shareholders a dividend of €0.20 per share for fiscal year 2015, in the total amount of €(8.2) million.

In 2015, the Company paid its shareholders a dividend of €0.15 per share for fiscal year 2014, in the total amount of €(6.1) million.

It did not pay any dividend for prior fiscal years.

4.4. TABLE OF NET EARNINGS FOR THE LAST FIVE FISCAL YEARS

Nature et indications (€)	2013	2014	2015	2016	2017
Share capital end of fiscal year					
Share capital	4 008 197	4 079 297	4 079 297	4 149 886	4 519 087
Number of shares issued	40 081 965	40 792 965	40 792 965	41 498 860	45 190 868
Number of convertible bonds in shares	-	-	-	-	-
Operations and income over fiscal year					
Pre tax revenue	1 054 109 509	1 413 217 099	1 828 883 972	2 749 689 826	3 820 735 854
Income before tax,	14 876 401	65 331 179	26 252 431	230 974 637	69 632 244
Income tax	1 026 287	(359 932)	(59 245)	11 374 164	1 338 420
Income after tax, amortization and provisions	14 656 616	24 299 839	(6 705 110)	166 191 456	16 747 799
Distributed income	-	6 117 759	8 242 358	10 374 715	15 816 804
Income per share					
Income after tax and before amortization and provisions	0.35	1.61	0.65	5.29	1.51
Income after tax, amortization and provisions	0.37	0.60	(0.16)	4.00	0.37
Dividend per share	-	0.15	0.20	0.25	0.35
Employees					
Average employees during fiscal year	280	283	297	325	333
Total payroll during fiscal year	15 448 592	14 814 574	16 404 934	18 464 439	19 559 499
Amounts paid for social benefits during fiscal year (social security, service activities, etc…)	6 809 254	6 901 281	8 143 077	9 473 012	8 655 437

4.5. NON-TAX DEDUCTIBLE EXPENSES

The amount of expenses described in Article 39-4 of the French General Tax Code added back for purposes of calculating taxable income amounts to €76,761 for the fiscal year ended 31 December 2017. Theoretical income tax on these expenses totals €25,587.

4.6. INFORMATION ON PAYMENT TERMS

At the close of the fiscal year ended 31 December 2017, the information on customer and supplier payment terms is as follows:

Invoices received and issued, which are due but not yet paid at the balance sheet date (Table included in I of Article D.441-4)												
In thousands of euros	**Article D.441-I.-1: Invoices received but not paid at the balance sheet date**						**Article D.441-I.-2: Invoices issued but not paid at the balance sheet date**					
	0 day (indicative)	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 days and more**	**Total (1 day and more)**	**0 day (indicative)**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 days and more**	**Total (1 day and more)**
(A) Late payment installments												
Number of invoices in question	1 408					416	328 632					399 261
Total invoice amount in question including VAT	127 730	56 624	-19	200	641	57 445	119 344	23 574	4 916	5 283	59 039	92 812
Percentage of the total amount of purchases excluding VAT for the year	3,85%	1,71%	0,00%	0,01%	0,02%	1,73%						
Percentage of the turnover excluding VAT for the year							3,12%	0,62%	0,13%	0,14%	1,55%	2,43%
(B) Invoices excluded from (A) relating to trade payables and disputed or unrecorded claims												
Number of invoices excluded	0						0					
Total invoice amount excluded	0						0					
(C) Reference payment deadlines used (contractual or legal deadline - Article L.441-6 or Article L. 443-1 of the Commercial Code)												
Payment deadlines used for the calculation of the payment delays	Contractual deadlines						Contractual deadlines					

At the close of the fiscal year ended 31 December 2016, the information on supplier payment terms was as follows:

In thousands of euros	**Debt due**	**Maturity of 30 days**	**Maturity between 31 and 60 days**	**Maturity beyond 60 days**	**Out of maturity**	**Total trade payable**
Trade payable	9 672	71 409	3 451	-		**84 532**
Payable invoices not received					152 584	**152 584**
TOTAL	**9 672**	**71 409**	**3 451**	**-**	**152 584**	**237 117**

5. REVIEW OF CASH, EQUITY AND FINANCIAL DEBT

5.1. SHAREHOLDERS' EQUITY AND NET FINANCIAL DEBT

At 31 December 2017, Group shareholders' equity amounted to €395.9 million, up €178.4 million compared to 31 December 2016. This change is mainly due to:

- the two capital increases of €129.2 million and €12.9 million effected in July 2017 and October 2017 respectively, which were used to finance part of the acquisition of Quadran;
- the payment of dividend of a nominal amount of €0.25 per share, decided by the General Meeting of 30 May 2017, on proposal of the Board of Directors, for a total of €(10.4) million;
- the buyback of shares, mainly for cancellation, for a total of €(16.3) million;
- capital increases totalling €8.4 million resulting from the exercise of stock options;
- net income for the period amounting to €51.9 million;
- the change in the fair value (net of tax) of hedging derivatives related to the load curve of the Group's electricity customers (€(6.1) million), recorded directly under other comprehensive income in accordance with IFRS, and mainly related to the unwinding, during the period, of derivatives with a positive fair value at 31 December 2017.

Excluding the impact of the fair value of hedging derivatives, Group shareholders' equity amounted to €382.1 million, up €178.3 million compared to 31 December 2016.

As part of the presentation of its 2017 financial statements, and to take into account the consequences of the Quadran acquisition, the Group has amended the definition of its net financial debt, an aggregate not defined by accounting standards, and which is not directly visible in the Group's financial statements.

This change intends to take into account:

- the existence in the financial statements of project companies (SPVs) carrying renewable assets, cash reserve accounts (DSRA[2]), intended for debt service repayments, and recorded as financial assets in the Group's balance sheet;
- The fact that only part of the additional price associated with the acquisition and recorded in the financial statements in financial liabilities at fair value through profit or loss, will be paid in cash, with the balance paid by the issue of Direct Energie securities.

In consequence, net financial debt now corresponds to the difference between financial debt (included margin calls received) and financial liabilities at fair value through profit or loss intended to be settled in cash on the one hand, and gross cash, including margin calls paid, and financial assets associated with cash reserve accounts on the other.

At end- 2017, net debt amounted to €645.3 million compared to €(43.6) million at end-2016.

This change in net financial debt is mainly due to the acquisition of the Quadran Group which was partly financed by a €230 million acquisition loan, and that led to the entry of renewable production assets bearing project financing debts in significant amounts into the Group's scope of consolidation.

[2] *Debt Service Reserve Account*

5.2. **EXTERNAL FINANCING**

The Group has access to several external financing instruments:

1. Bilateral bank credit lines in the form of authorised overdrafts and confirmed 364-day lines of credit for a total amount of €75 million at 31 December 2017 and €9.4 million at 31 December 2016. Intended to finance general operating needs, these credit lines are indexed to EURIBOR, which is not subject to an interest rate hedge, plus a margin. As of 31 December 2016 and 31 December 2017, no drawdowns were reported.

2. A factoring program, at Direct Energie's level, providing for a maximum of €65 million in financing, including taxes. The position of the related accounts are as follows:
   - At 31 December 2017:
     - Guarantee fund: N/A,
     - Current account payable with the factor: €448 thousand;
   - At 31 December 2016:
     - Guarantee fund: none,
     - Current account payable with the factor: €35 thousand.

3. Corporate bond issues at Direct Energie's level
   a. In July 2014, the Company completed a private placement of its first bond issue in the amount of €40 million in two tranches, the first maturing in December 2019, in the amount of €28.5 million with an annual coupon of 4.70%, and the second maturing in July 2021, in the amount of €11.5 million with an annual coupon of 5%. A third tranche was added to this issue in November 2014 in the amount of €15 million, maturing in November 2022 with an annual coupon of 5%.
   b. A second bond was issued during the fourth quarter of 2015 in the amount of €60 million, in two tranches. The first was in the amount of €15 million, maturing in December 2019 with an annual coupon of 4.40%, and the second was in the amount of €45 million, maturing in December 2022 with an annual coupon of 4.80%.
   c. A third bond was issued during the fourth quarter of 2016, in a single tranche of €68 million, maturing in October 2023, and with an annual coupon of 3.25%.

These bond issues are subject to covenants, and were amended in summer 2017, during the acquisition of Quadran. These can be broken down at the closing date as follows:

- A debt ratio, which measures the relationship between:
  1. Total net debt,
  2. and consolidated EBITDA,

  and must be less than or equal to 3.5;
- An interest coverage ratio, which measures the relationship between Consolidated EBITDA and Consolidated Net Interest Expense, must be greater than or equal to 4.5.

The various financial aggregates used to calculate the covenants are defined as follows, under the terms of the bond issue documentation, as amended:

- Total Net Debt means, on the basis of the latest consolidated financial statements, restated to exclude the scope of Quadran and its subsidiaries, the aggregate outstanding principal, capital or nominal amount (and any fixed or minimum premium payable on prepayment or redemption) of the Financial Indebtedness of all the members of the Group Direct Energie (other than any bank guarantees [cautionnements bancaires]) less cash and investments convertible into cash with a maximum notice of 32 days and having a maturity of less than or equal to a year (provided that such investments convertible into cash consist exclusively of fixed-term deposit accounts or other similar instruments with no exposure on the principal amount), less any indebtedness relating to the earn out and the share subscription warrants associated with the acquisition of Quadran and its subsidiaries, less any Security amount granted by the Borrower or any other entity of the Group Direct Energie by means of cash collateral for margin calls relating to energy purchases as shown in the Borrower's latest consolidated financial statements.

- Financial Indebtedness means, on the basis of the consolidated financial statements, (without double counting) any indebtedness for or in respect of:
  1. amounts borrowed;
  2. any amount secured under any credit facility or dematerialised equivalent;
  3. any amount raised under any note purchase facility, or the issue of bonds, notes, or any similar instrument;
  4. the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, effective from the date of signing, be treated as a finance lease;
  5. receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis and/or any receivables transferred by the Issuer in relation to amounts borrowed);
  6. any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
  7. any repayment obligation as applicant in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution (other than a performance bond issued in the ordinary course of business by the company or one of its Subsidiaries in relation to the obligations of another Subsidiary and standard counter-guarantees for the purpose of margin calls in respect of energy purchases); and
  8. the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (1) to (7) above accrued and paid by the Issuer in that Test Period in respect of Financial Indebtedness.

- Consolidated EBITDA means, in relation to any Test Period, on the basis of the latest consolidated financial statements of the Issuer, restated to exclude the scope of Quadran and its subsidiaries, the recurring operating profit (or EBIT) excluding the mark to market on derivatives, all charges associated with share-based payments, before depreciation, amortisation and provisions on a consolidated basis, based on figures presented in the latest audited consolidated annual financial statements of the Issuer.

- Consolidated Net Interest Expense means, on a consolidated basis, restated to exclude the scope of Quadran and its subsidiaries, interest expense less interest income and any other financial income up to the amounts actually received.

At 31 December 2017, within the meaning of the covenants, the debt ratio was equal to 1.28 and the interest coverage ratio was 9.86, within the authorised limits.

At 31 December 2016, within the meaning of the covenants in force, the debt ratio was equal to (0.39), and the interest coverage ratio was 10.36, within the authorised limits.

4. An acquisition bank loan, for nominal amount of €230 million, set up in June 2017 for a five-year period, repayable from 30 June 2020, expiring in June 2022, and raised from a pool of 17 banks. This floating rate bank loan, indexed to the three-month EURIBOR, to which is added a margin of 1.50% to 2.75% depending on the level of the half-year debt ratio, has been fully fixed hedged starting end of 2017. It is governed by covenants with limits identical to those of the bond issues.

5. A revolving credit facility, at Direct Energie SA's level, set up in June 2017, confirmed over a period of three years (June 2020), for a maximum amount of €120 million and secured from a pool of 17 banks. This revolving credit facility, which can be drawn down for renewable periods, is subject to a drawdown fee calculated on a pro rata temporis basis ranging between 0.125% and 0.50%, depending on the extent to which this credit is used, and a non-utilisation fee calculated pro rata temporis at an annual rate of 35% of the applicable margin. The cost of drawdowns is based on EURIBOR, and calculated according to the duration of the drawdown plus a margin ranging between 0.75% and 2%, depending on the level of the debt ratio. It is governed by covenants identical to those applicable to the bond issues. At 31 December 2017, no drawdowns were in place.

6. Bank loans and corporate bonds with regard to the scope of Quadran and its subsidiaries (operating segment: Renewable Energies) for a total amount of €63.1 million, including one Euro PP raised from a pool of 11 banks for a total amount of €46 million, bearing a fixed interest rate of 3.5% and a maturity of five years (due in May 2022). This Euro PP has three financial ratios (leverage ratio, interest coverage ratio, and asset value ratio) that were fully met as of 31 December 2017.

7. Project financing for Quadran's subsidiaries relating to wind, solar, hydraulic and biogas renewable generation assets for €465.3 million. These financings, mostly non-recourse, with a maturity of up to 18 years for the latest ones, bore interest at an average rate of 3.5%. These financings are governed by debt service coverage ratios, prior to any dividend payment or repayment from shareholders' current accounts.

As at 31 December 2017, the portion of the Group's fixed-rate borrowings or financial debt, or fixed-rate hedged, represented 86% of the total amount outstanding on the balance sheet.

5.3. GROUP CASH FLOW

Changes in the Group's cash and cash equivalent during 2016 and 2017 were as follows:

€m	2017	2016
Income before taxes and financial expenses	96.1	105.3
Non-cash items	61.3	39.5
Change in working capital requirement	(75.8)	74.2
Net cash flow from operating activities	**81.5**	**219.0**
Property plant and equipment	(108.0)	(33.8)
Fixed financial assets	(101.7)	187.0
Changes in scope	(267.7)	(35.5)
Net cash flows from investing activities	**(477.4)**	**117.7**
Change in borrowings	266.0	8.4
Net financial expenses	(16.4)	(10.3)
Treasury shares	(16.3)	(0.1)
Other flows	127.3	(1.9)
Net cash flows used in financing activities	**360.6**	**(3.9)**
Net change in cash and cash equivalents	**(35.2)**	**332.8**
Cash and cash equivalents at beginning of year	**364.8**	**32.0**
Cash and cash equivalents at end of year	**329.6**	**364.8**

5.3.1. CASH FLOW FROM OPERATING ACTIVITIES

€m	2017	2016
Consolidated net income	51.9	123.6
Tax expenses/income	29.3	(29.5)
Financial income/(loss)	14.9	11.2
Income before taxes and financial expenses	**96.1**	**105.3**
Depreciation and amortisation	38.1	29.2
Impairment	-	0.1
Provisions	15.5	31.9
Effect of changes in consolidation scope and other gains and losses	1.9	0.0
Expenses related to share-based payments	2.5	1.7
Change in fair value of financial instruments	3.3	(25.3)
Other financial items with no cash impact	(0.1)	2.1
Share of income from associates	0.1	(0.4)
Items with no cash impact	**61.3**	**39.5**
Income tax paid	**(8.3)**	**(10.6)**
Change in working capital requirement	**(67.5)**	**84.9**
Net cash flow from operating activities	**81.5**	**219.0**

Between fiscal years 2016 and 2017, cash flow from operating activities fell by €(137.5) million to €81.5 million at 31 December 2017.

This fall is mainly due to a negative impact of the change in the working capital requirement, which amounted to €(67.5) million in 2017, whereas the year 2016 had been marked by a positive impact at €84.9 million.

Indeed, income before taxes and financial expenses was slightly down at €96.1 million against €105.3 in 2016, the growth in current operating income observed over the year being more than offset by a less positive change in the fair value of financial derivatives operational in nature (€2.2 million in 2017 compared with €21.4 million in 2016).

In 2017, in addition to depreciation and amortisation, non-cash items mainly include provisions and impairments, notably associated with bad debts, which increased mainly due to the effects of growth in the customer base, implementation of billings associated with the September 2016 tariff adjustment, the increase in the TICGN and lastly the full-year impact of the TICFE billing, not recoverable by the Group. Non-cash items in 2016 mainly included, in addition to depreciation, the provision for loss-making contracts in the amount of €31.6 million relating to the transport capacities secured by the Group between Belgium, the Netherlands and France and the impact of the positive change in fair value of financial derivative instruments totalling €25.3 million.

In 2017, the negative impact of the change in working capital requirements (€(67.5) million) is mainly explained by:

- an increase in inventories (negative impact amounting to €(28.6) million), mainly of gas, capacity certificates, and energy saving certificates, associated in particular with the growth in the customer base and load curve, and as a result of the group's obligations in this area;
- an increase in other receivables (negative impact amounting to €(46.9) million), mainly associated with the fact that the Group, during the second half of 2017, ended recourses that were submitted against several administrative and legal rulings in relation with the energy supply markets, and received in compensation, an amount of €24m the proceeds of which were received in 2018, a rise in VAT receivables following Quadran's entry into the scope (+ €13.7 million), and an increase in the receivables associated with the application of social tariffs for gas and electricity, due to growth in the customer base.

In 2016, the positive impact of the change in working capital requirement of (€84.9 million) was directly related to:

- the year-end unwinding of calendar forward purchases products and their substitution by quarterly and monthly products. This market mechanism ("cascading"), with no effect on net income for the fiscal year in the Group's consolidated financial statements, had a positive impact on cash of €93.3 million in 2016, directly related to the rise in market prices observed at the end of 2016, whereas the impact was negative at €(38.2) million in 2015, following the slump in market prices in late 2015;
- a regulatory change that saw the domestic tax on the end consumption of electricity (TICFE), paid by the Group on a quarterly basis each 25th of the month following the end of each quarter, replace the Contribution to the Public Electricity Service (Contribution au Service Public de l'Electricité (CSPE)) which, prior to that date, was paid on a monthly basis;
- significant growth in the gas and electricity supply business, in particular with non-residential customers since the beginning of the year, which contributed to the significant increase in trade receivables, net of trade payables related to these receivables, during 2016.

5.3.2. CASH FLOWS FROM INVESTING ACTIVITIES

€m	2017	2016
Acquisition of fixed assets	(108.1)	(33.8)
Disposals of fixed assets	0.2	-
Property plant and equipment	**(108.0)**	**(33.8)**
Change in deposits and guarantees	(91.4)	184.8
Acquisition of available-for-sale securities	0.0	0.0
Change in financial assets	-	-
Net change in loans originated by the Company	(10.3)	2.2
Fixed financial assets	**(101.7)**	**187.0**
Acquisition of shares in companies not fully consolidated	-	(0.0)
Acquisition of subsidiary, net of cash acquired	(268.2)	(35.5)
Transfer of shares in companies not fully consolidated and available-for-sale securities	0.4	-
Changes in scope	**(267.7)**	**(35.5)**
Net cash flows from investing activities	**(477.4)**	**117.7**

Net cash flow from investing activities changed significantly between fiscal years 2016 and 2017, primarily as a result of the acquisition of Quadran and the drop in the Group's receivables net position of security deposits and margin calls compared to the end of 2016.

During 2017, these cash flows amounted to €(477.4) million, mainly due to:

- the acquisition of Quadran and its subsidiaries, for a gross cash amount of €304 million paid over the period, and €268.2 million net after taking into account the cash acquired;
- acquisition of fixed assets for a total amount of €108.1 million, corresponding to €45.6 million in intangible assets, mainly composed of activated customer acquisition costs, up from 2016, due to a strong momentum in commercial acquisitions, and €62.6 million in property, plant and equipment, mostly associated with renewable energy generation assets developed by Quadran and its subsidiaries, and to a lesser extent, investment expenditures incurred as part of the major periodic review carried out on the Bayet plant;
- a negative change of €(91.4) million in deposits and guaranties paid for the most part to clearing house ABN as part of transactions cleared on the regulated market, and to other counterparties with which the Group concluded energy purchase and sale transactions, to source the load curve associated with its customer portfolio. This change is mainly due to the repayment, over the period, of deposits and guarantees received historically and covering volumes that have been delivered during the year 2017. However, at 31 December 2017, the Group is still a net receiver of security deposits and margin calls for an amount of €29.4 million.

During 2016, these cash flows amounted to €117.7 million, mainly due to:

- acquisitions of fixed assets for €(33.8) million, mainly comprising increased customer acquisition costs reflecting the growing pace of commercial acquisitions;
- the €184.8 million increase in deposits and guaranties paid for the most part to clearing house ABN as part of transactions cleared on the regulated market, and to other counterparties with which the Group concluded energy purchase and sale transactions, to source the load curve associated with its customer portfolio. This variation is directly related to the steep rise in the power market price observed at the end of 2016, and to the delivery during the year of energy volumes covered by deposits made in late

2015. At 31 December 2016, the Group was a net recipient of cash deposits and margin calls for a total amount of €129.1 million;

- the acquisition for a net amount of €(35.5) million of Marcinelle Energie, operator of a combined cycle gas turbine power plant located in Charleroi in Belgium.

5.3.3. CASH FLOWS USED IN FINANCING ACTIVITIES

€m	2017	2016
Proceeds from borrowings	277.6	185.5
Repayment of borrowings	(11.5)	(177.1)
Change in borrowings	**266.0**	**8.4**
Interest paid	(16.9)	(11.2)
Interest received	0.5	0.9
Net financial expenses	**(16.4)**	**(10.3)**
Treasury shares	**(16.3)**	**(0.1)**
Sums received from shareholders during capital increases	137.7	6.3
Dividends paid	(10.4)	(8.2)
Other flows	**127.3**	**(1.9)**
Net cash flows used in financing activities	**360.6**	**(3.9)**

Net cash flows generated by financing activities amounted to €360.6 million for 2017 against €(3.9) million in 2016.

In 2017, these positive flows are mainly explained by:

- borrowings amounting to €277.6 million, including €230 million to finance the acquisition of Quadran, the balance consisting mainly of loans issued by the subsidiaries of Quadran, mainly in the context of renewable energy project financing;
- the proceeds of capital increases, mainly associated with the increase carried out during the summer of 2017 for a net amount of €129.2 million, and to a lesser extent with the exercise of stock options for €8.5 million.

During the period, the Group also repaid borrowings, mainly associated with projects financing led by Quadran's subsidiaries, in the amount of €(11.1) million, share buy-backs for the amount of €(16.3) million, and the payment of a dividend for the amount of €(10.4) million. In addition, the net interest paid over the period amounted to €(16.3) million, an increase compared to 2016, as a result of the two-month contribution towards project financing by Quadran and its subsidiaries, and new financing implemented by Direct Energie SA at the end of 2016 and in 2017 (mainly a third bond issue and the acquisition loan).

In 2016, these negative cash flows were mainly related to:

- a net change in borrowings recorded over the period for €8.4 million. This corresponds mainly to the proceeds from the issuance of a new bond for €68 million, and the impact of the repayment of the drawdown that had been made on the Group's credit facility in late 2015 in the amount of €60 million to finance margin calls associated with the fall in market prices of gas and electricity at the end of 2015. This repayment was made in light of the recovery in market prices from the second quarter of 2016 onwards. Moreover, shareholder loans, which had been set up during the first half of 2016 in the amount of €55 million, and the drawdown of €60 million on the short-term credit line provided by ABN, clearing house for the Group's market transactions, were fully repaid during the second half of 2016;

- payment of net financial expenses for €(10.3) million. The strong growth observed in comparison with 2016 is the direct result of the full-year impact of the bond issuance that took place in the fourth quarter of 2015 for €60 million, and the various drawdowns on the Group's short-term facilities (revolving credit facility, shareholder loans, ABN credit line), mainly during the first three quarters of 2016.

In addition, the Group paid a dividend again in 2016, up €2.1 million over 2015, and had received €6.3 million following the exercise of stock options during 2016.

5.4. RESTRICTIONS ON THE USE OF CAPITAL

The Group has the following restrictions on the availability of its capital:

- cash deposits paid, recognised as financial assets, which mainly concern cash deposits with certain Group counterparties to cover changes in fair value of forward energy instruments, associated with changes in commodities market prices, especially power, gas and oil, which amounted, respectively, to €27.7 million at 31 December 2017 and €12.4 million at 31 December 2016, and are likely to rise and fall based on underlying changes in commodities prices; and

- covenants related to its bond issues, acquisition loan and credit facility at the level of Direct Energie SA, and to existing bond issue at the level of the sub-Group Quadran, presented in Section 5.2 (*Company's external financing);*

- compliance with the debt service coverage ratios associated with existing project financing at the level of the different project companies operating renewable energy production assets, prior to any dividend payment or any repayment from shareholders' current accounts.

The Group has no other restrictions on the availability of its capital.

5.5. FINANCING SOURCES FOR FUTURE INVESTMENTS

The Company plans to finance the acquisition of additional customer sites through cash flow generated by operations and the bonds issued in 2014, 2015 and 2016 and finally by a part of the income from the capital increase carried out in 2017. IT investments, needed to support the growing customer portfolio, will be financed from cash flow or covered by leases or leasing contracts.

With regard to the development of the combined-cycle natural gas plant in Landivisiau, which has a capacity premium granted by the public authorities, the Group and its partner, Siemens Project Ventures, intend to set up a project financing arrangement during the second half of 2018 provided that all necessary authorisations are free of any claims. The proposed debt would fall within a target of 60% to 80% of total estimated investment costs equal to approximately €450 million, with the equity contribution supplementing the financing plan. To finance its share of the equity contribution to the joint venture, the Group will increase its capital or raise additional financing at the time the power plant construction begins.

Regarding the development of renewable energy production assets by Quadran and its subsidiaries, each project or group of project will be covered by a dedicated project finance debt alongside equity injection by the Group. In this context, the Group will target a market practice leverage ratio between debt and equity taking into account the specific characteristic of each project.

Finally, in the event of additional acquisition opportunities, the Group may raise additional capital and seek new sources of financing in addition to those already secured.

6. REVIEW OF THE OTHER ITEMS OF THE STATEMENT OF FINANCIAL POSITION

€m	Fiscal year ended 31 December		
	2017	2016	Change in value
Goodwill	220.9	-	220.9
Intangible assets	70.2	50.2	20.0
Property, plant and equipment	718.2	76.2	642.0
Other non-current assets	140.9	96.8	44.1
Non-current assets	**1,150.2**	**223.2**	**927.1**
Current assets	**1,226.8**	**1,006.3**	**220.5**
Shareholders' equity	**395.9**	**217.5**	**178.4**
Non-current financial liabilities	933.6	182.8	750.8
Other non-current liabilities	105.7	72.8	32.9
Non-current liabilities	**1,039.3**	**255.6**	**783.7**
Current liabilities	**941.8**	**756.4**	**185.4**

The acquisition of the Quadran Group on 31 October 2017 generated goodwill of €220.9 million as part of the acquisition price allocation.

Intangible assets amounted to €70.2 million, an increase of €20.0 million in 2017, mainly due to the strong acquisition pace of customers, whose acquisition costs, fulfilling the conditions set by IFRS, are capitalised in the balance sheet. Thus, capitalised acquisition costs increase by €15.2 million in 2017.

Property, plant and equipment amount to €718.2 million, an increase of €642.0 million, mainly due to the acquisition of Quadran, which contributes €636.1 million through renewable energy production facilities (wind, solar, hydropower, biogas) operated and under construction, consolidated at fair value on the date of acquisition. The impact of the major periodic maintenance carried out in 2017 on the Bayet power plant comes on top, and resulted in the replacement of the capitalised components.

Other non-current assets increase by €44.1 million, mainly under the impact of an increase in the value of equity-accounted interest (€+32.9 million) and other financial non-current assets (+€39.4) million, associated with the acquisition of Quadran, partially offset by a decline in deferred tax assets recognised in the balance sheet (-€20.1) million -, associated particularly with the use of tax loss carryforwards, which were activated historically, as the Group did not modify its timeline for the recognition of tax loss carry forwards in relation to 31 December 2016, and the settlement during the year, of temporary differences associated particularly with the year-end unwinding of forward purchases made on the markets which led to considerable deferred tax assets at the end of 2016. At the end of 2017, other non-current financial assets mainly comprise debt service reserve accounts (€13.8 million), associated with project financing at the Quadran Group level, and loans to equity accounted companies (€24.6 million) with a maturity of more than one year.

Current assets amounted to €1,226.8 million, up €220.5 million, mainly under the impact of a rise in accounts receivable (€+110.3 million), inherent particularly to a sharp increase in gas and electricity supply activities in 2017, an increase in other current assets (€+79.4 million), associated particularly with the impact of Quadran's consolidation, and the recognition of other receivables, relating particularly to social tariffs for gas and electricity, and finally an increase in inventories (€+30.0 million) of gas and capacity certificates in particular, due to the increase in the group's customer base.

The increase of €783.7 million in non-current liabilities, to reach €1,039.3 million, is mainly due to the significant increase in non-current financial liabilities (+€750.8 million) associated with the entry of Quadran and its subsidiaries into the scope of consolidation as at 30 October 2017, which represented a contribution of €469.1 million at the end of December, the set up by the Direct Energie Group of a term loan to execute this acquisition (+€227 million), and the recognition of the earn-out recorded at fair value in the accounts at the balance sheet date (€53.8 million). The increase in deferred tax liabilities (+€33.1 million), attributable to the consolidation of the assets and liabilities of Quadran and its subsidiaries at fair value in the group accounts on the date of acquisition are added here to.

Current liabilities rose by €185.4 million to €941.8 million, mainly due to an increase of €108.1 million in trade payables, which are mainly explained by the increase in the gas and electricity supply activity. The increase in other current liabilities (+€100.8 million), as a result of the entry of Quadran and its subsidiaries into the scope of consolidation, which contribute €33.6 million, the increase in prepaid income (+€27.5 million) mainly associated with the anticipated unwinding of forward energy purchases/sales on the markets, and the increase in other debts (€26.9) million, associated in particular with the purchase of various fixed assets (including €25 million for the acquisition of Quadran's shares, settled in January 2018 in accordance with the acquisition terms) are added hereto.

7. OUTLOOK

7.1. POST-CLOSING EVENTS

There is no material post-closing events to disclose at the date on which the 2017 financial statements are published.

7.2. FUTURE PROSPECTS

The Group believes that the markets in which it operates offer significant opportunities for growth and aims, through the implementation of the strategy presented in Section 1.1.3 (Context and strategy) of its Registration Document, to consolidate its position as the third-largest French operator on the gas and electricity supply market, to strengthen its vertical integration through the development of renewable energy production assets, and pursue its international expansion. The Group intends to expand its market share in France and Belgium.

Given the size of the customer portfolio in France and Belgium in 2017, and the respective dynamics observed in these two markets, the Group confirms it will reach its aggregated portfolio target of four million customer sites across all market segments both in gas and electricity by 2020.

Moreover, the Group aims to increase its global portfolio to 3.0 million customer sites by end of 2018.

Given the implementation of IFRS 15 starting 1 January 2018 which will lead to a decrease in the Group's consolidated turnover up to the electricity and gas distribution revenues in France and Belgium, now being directly recorded net of the distribution costs in the cost of sales, with no impact on the Group's gross margin, it targets a global revenue ranging between €1.35 billion and €1.40 billion at seasonal average temperatures. In 2017, after taking into account the impact IFRS 15, the turnover would have amounted to €1,141 million.

The Group also decided to guide on an estimated target range of EBITDA[3] following the acquisition of the Quadran group. This financial indicator, now monitored by the Board of Director of the Direct Energie Group, is indeed adapted to track the performance of the renewable assets operated by Quadran, and becomes key to measure the consolidated financial performance of the new consolidated Group. The Group aims to generate an EBITDA ranging between €195 million and €205 million at seasonal average temperatures, and is committed to

[3] *As defined in note 2 of the Appendix to the Group consolidated accounts as of 31 December 2017*

controlling development expenses taking into account the regulatory framework and changing market. The Group's EBITDA is €142.7 million for 2017.

The Group also intends to pursue its vertical integration strategy through investments in production capacities with the following objectives:

- (i) strengthen its position as a flexible electricity generator to offer a diversified energy mix with efficient technologies and production means (notably CCGT, hydraulic and renewables) in order to promote industrial competitiveness and protect the consumer purchasing power. The Group is positioning itself as a candidate to take part in the competitive process for the renewal of the hydraulic concessions;

- (ii) to be fully involved in securing the supply of electricity, as demonstrated by the development of the CCGT project in Landivisiau (Brittany), which is part of the Breton Electric Agreement;

- (iii) commission 190 MW of gross renewable installed capacities in 2018.

Lastly, it strives to operate at the cutting edge of innovation in energy services to support and achieve transformation in usage by anticipating the future needs of its customers.

The Group aims to present a debt ratio and interest coverage ratio below the limits associated with its various financing instruments.

The Group's priority uses of the cash flow generated from operating activities will be to expand its customer portfolio across all segments (residential, non-residential), both in France and abroad, and to develop its installed capacities to generate renewable energy. Each year, however, it will review the opportunity to pay a dividend, as it did in June 2017, June 2016 and June 2015, based on 2016, 2015 and 2014 results. The Group will submit to the next General Shareholders' Meeting in 2018 a dividend on the basis of its 2017 results, taking into account in particular the general economic framework, the specific conditions in its business area, the Group's results, its financial position, the interests of its shareholders, insofar as this distribution is consistent with its business development targets and compliant with the financial ratios set forth above.

These outlooks and targets do not constitute forecasts or estimates of profits resulting from a budgeting process, but are simply outlooks and targets based on data, assumptions and estimates considered reasonable by the management, and presuming the successful implementation of the Group's strategy presented in Section 1.1.3 of its Registration Document (*Context and strategy*).

These data, assumptions and estimates, are likely to change or be modified due to uncertainties related to regulation, competition, economics, finance, accounting, tax or other factors of which the Company is unaware.

In particular, the occurrence of one or more risks (described in its Registration Document) could have an impact on the Group's activity, results, financial position or outlook, and may impact its ability to achieve its targets. Accordingly, the Company makes no commitment nor guarantees that they will be achieved.

8. DIVIDEND DISTRIBUTION POLICY

8.1. DIVIDENDS PAID DURING THE LAST THREE FISCAL YEARS

The Company decided, at its Board of Directors meeting held to approve the 2017 financial statements, to propose to the General Shareholders' Meeting on 29 May 2018 the payment of a dividend in the nominal amount of €0.35 per share.

At its Board of Directors meeting held to approve the 2016 financial statements, the Company decided to pay a dividend in the nominal amount of €0.25 per share, paid on 6 June 2017 based on the number of shares making up the share capital at the close on 4 June 2017. The share of distributable profit corresponding to treasury shares was allocated to retained earnings, such that the net distribution amount was equal to €10,407,462.

At its Board of Directors meeting held to approve the 2015 financial statements, the Company decided to pay a dividend in the nominal amount of €0.20 per share, paid on 15 June 2016 based on the number of shares making up the share capital at the close on 12 June 2016. The share of distributable profit corresponding to treasury shares was allocated to retained earnings, such that the net distribution amount was equal to €8,242,358.

8.2. DIVIDEND DISTRIBUTION POLICY

In the past three fiscal years, the Company distributed dividends.

Given the growth strategy planned by the Group, it does not intend to establish a dividend payment policy within the next 12 months.

However, the Company's Board of Directors will annually review the opportunity of paying a dividend, given the general economic climate, specific conditions within its business area, the Group's results, its financial position, the interests of its shareholders and any other factors it deems relevant.