

Report of the Board of Directors of Infrac cvba for the financial year 2016
to the General Meeting of 29 march 2017

In accordance with the legal and statutory provisions we report on the activities of Infrac cvba during the past financial year and we present the annual accounts of 2016 for approval

Infrac cvba is the operating company of Infrac Limburg, Infrac West, Iveg, PBE and Riobra. Infrac Limburg acts in turn as operating company for Inter-energa, Inter-media and Inter-anqua.

The company is, within the framework of the policies as set out by its partners, responsible for the operation, maintenance and development of the grids in the disciplines of electricity, natural gas, cable TV, communications and sewerage.

Composition of the Board of Directors

- In the Extraordinary General Meeting of 4 March 2015, an amendment to the articles of association was approved by which the Board of Directors may henceforth co-opt a maximum of four independent directors. The co-opted directors are selected on the basis of their experience in the sector and/or their technical knowledge. As a consequence of this, the Board of Directors has co-opted the following directors in 2015:
 - Willem-Frederik Schiltz
 - Hendrik Bogaert
 - Andries Gryffroy
 - VOF Admonitus (the latter with Peter Vanvelthoven as its permanent representative). Since 2 June 2016, Peter Vanvelthoven has had a seat on the Board of Directors as a natural person.

The appointment of Willem-Frederik Schiltz was already ratified by the General Meeting of 25 March 2015. The co-optation of the other 3 directors happened in Autumn 2015, which meant that their appointment was ratified by the General Meeting of 20 April 2016.

- The following directors were also appointed during the General Meeting of 20 April 2016.
 - Luc Lemmens, delegate on behalf of Iveg, replacing Rob Van de Velde
 - Bert Maertens, delegate on behalf of Infrac West, replacing Didier Vandeputte
 - Patrick Lanssens, delegate on behalf of Infrac West.

The directorship of Bert Meulemans, delegate on behalf of Riobra, was extended.

Strategic committee

At the extraordinary general meeting of 18 May 2016, the articles of association were amended, in order to enable the setting-up of a Strategic Committee within the Board of Directors. This committee has powers to advise the Board of Directors and is composed of 6 members of the Board of Directors, including the Chair, and the CEO of Infrac cvba.

The following members were appointed: Wim Dries (Chair), Hendrik Bogaert, Andries Gryffroy, Lies Laridon, Willem-Frederik Schiltz, Peter Vanvelthoven and Frank Vanbrabant (CEO).

Reallocation of duties of the management committee.

In the course of 2016, the following reallocations of duties were carried out within the management committee:

- merger of the 'Network operation' and 'Customer Service' directorates under the management of Tom Ceuppens. This directorate comprises the following units: network operation, market forces, customer management and REG (rational energy usage).
- Setting-up of a 'network synergy' directorate. The aim is to exploit all internal and external benefits of synergy. This directorate was to be managed by Raf Bellers and comprises the following units: Technical Management Implementation incl. GIS/NIS, purchasing and logistics including contract management, multi-disciplinary programme management and data management assets.
- The setting-up of a 'Strategy and Regulation' directorate under the management of Herman Remmerie. This directorate comprises the following units: strategy and strategic project management, risk management, regulation, stakeholder management, PMO and process management.

Merger of distribution system operators (DSOs) and unicity of management

It was proposed that the partners in Infrac should consider during this legislature a merger of the Infrac DSOs, to take effect in 2019. The project for a possible merger is the consequence of the need to create 'unicity of management' (in other words, the consolidation of the personnel into a single company) and achieve greater efficiency.

During the discussions and after the collapse of the merger of the Eandis-DSOs, the City of Antwerp stated that it did not agree with a merger within Infrac of the assets. All the partners, on the other hand, do agree to consolidate all the personnel into a single company. The 'unicity of management' dossier is now in preparation, and will be proposed to the management bodies in the course of 2017.

The municipality of Voeren joins Infrac for electricity

On 25 June 2015, the municipality Voeren decided to transfer the management of its electricity network to Infrac on 1 January 2016. With the addition of Voeren, all Limburg municipalities are now connected to Infrac for electricity.

Foundation of Warmte@Vlaanderen

On 18 May 2016, a heating company, Warmte@Vlaanderen, was set up in a 50/50 joint venture with Eandis. The heating company will be responsible for prospecting, designing, developing, building and maintenance of thermal and geothermal facilities and infrastructure including production (only conventional heat), transport, distribution, supply, metering and invoicing of heat. The registered office of the company is in Antwerp.

The decision to cooperate with Eandis is based on the observation that installing heat networks requires very heavy investment with limited returns, and that pooling of strengths and know-how offers the best guarantees for carrying out these projects successfully.

It is intended to have all existing or awarded heat projects brought within the company.

Warmte@Vlaanderen is not yet operational. The reporting of this merger to the competition authority is in preparation.

Creation of Fluvius and cooperation with Eandis

At the end of 2015, discussions were initiated with Eandis about possible cooperation and about the issue of the renewal of the mission-entrusted associations in 2019.

The discussions ultimately led to a 'memorandum of understanding' (MoU) which was approved by the Board of Directors on 7 July 2016. This MoU aims to establish the framework and general principles of a future cooperation and covers the following aspects:

- Foundation of a joint venture (subsidiary) owned 50/50, and a Board of Directors with joint membership. There was an immediate start to work on a first joint project, i.e. the preparation for the roll-out of smart meters. At the same time, a consultant was commissioned to explore options for cooperation in other areas.
- Exchange of territories: a proposal was devised for a limited exchange of territories in the context of operational efficiency and organisation of the territories in which both companies operate. The principle was used that all areas in which 2 Distribution System Operators (DSOs) operate would be transferred to Infrax. In total, this represents a limited growth for Infrax of approximately 75,000 EANs. Of course, municipal autonomy will be respected, and the municipalities concerned will have to agree to this.
- Continuity after 2019: it will be proposed to all municipalities in Flanders that they should stay with the existing distribution system operator after 9 November 2019.

On 27 December 2016, this subsidiary was founded under the name Fluvius.

Cost savings plan

In view of the changes in the tariff methodology in 2015 (transition from 'cost plus' to 'price cap' or 'permitted income'), McKinsey was asked to carry out an analysis of the future changes in Infrax's costs. It emerged that if policy remained constant, sizeable deficits would be created in permitted income, which would squeeze the dividends that could be paid out. In order to overcome this problem, a cost savings plan (approx. 14 million euro) was drawn up and approved by Board of Directors. The aim is to achieve the 'fair profit' calculated by the regulator by 2020 with the permitted income, in order to be able to pay out the agreed dividends to shareholders.

Net electricity and natural gas tariffs 2016

On 27 November 2015, the Energy Decree was amended, with the 'free kWh' being eliminated, together with the abolition of the ceiling on the solidarization of green power certificates and combined heat and power certificates.

On 7 October 2015, VREG decided that the 'regulatory assets or liabilities' (the so-called deficits or surpluses) of the period 2010-2014 could be recovered over a period of five years, starting in 2016.

Both decisions gave rise to adaptations of the permitted income for 2016.

The average network rates for electricity at Infrax increased by 1,15 % in 2016. The average network rates for natural gas at Infrax decreased in 2016 by 4,9 %.

Electricity	2015	2016
Budget of the year	433.457.283	425.216.924
Recovery historical balances	10.011.448	70.567.480

Impact decree		-47.217.623
Permitted income	443.468.731	448.566.781

Natural gas	2015	2016
Budget of the year	85.415.351	87.322.551
Recovery historical balances	-10.659.297	-16.201.339
Permitted income	74.756.054	71.121.212

For all of Infrac (excluding the municipality of Voeren), the permitted income in 2016 for electricity distribution in Flanders amounted to 448,6 million euro (this is an increase of 5,1 million euro compared with 2015), and for natural gas distribution, 71,1 million euro (a decrease of 3,6 million euro).

Regulatory balances at December 31, 2016

Until the end of 2014, the regulatory framework according to the cost-plus method of the CREG, has been applied. This provided for a distinction between 'manageable' and 'non-manageable' costs

The difference between the estimated and the actually incurred non-manageable costs is considered as a claim ('regulatory assets') or debt ('regulatory liabilities') and is therefore settled in a following pricing period. The difference between the actual sales volumes and the volumes estimated in the budget are also settled in a following pricing period. These differences result either in an increase or in a decrease of the future rates.

The VREG has decided to recuperate the balances from 2010-2014 over a period of 5 years, beginning with 2016. Earlier the VREG had already decided to process the balances of 2008-2009, that were already formally approved by the CREG, in the rates of 2015 and 2016.

As of 2015 the pricing methodology of the VREG, based on income related regulation ("price-cap"), is applied. The new method makes a distinction between exogenous and non-exogenous costs. According to the VREG, exogenous costs are costs on which the network operator can have no impact whatever. These costs are limitatively listed by the VREG. The balances related to exogenous costs and the balances related to exogenous volume differences can be settled in the following pricing period.

The table below shows the balances at December 31, 2016 for the regulated activity electricity, as it was included in the annual reports of 2016 of the Infrac distribution network companies concerned (- deficit and booked as a claim, + surplus and booked as a debt).

Balances for electricity distribution		
Balances of exogenous costs per 31/12/2015	(1)	-252,772,488
50% recovery of 2008/2009 balances in 2016	(2)	+10,194,590
20% recovery of 2010/2014 balances in 2016	(3)	+58,345,436
Balances of exogenous costs and volume differences in 2016	(4)	+12,432,901
Total	(5)	-171,799.561

(-: deficit, will raise rates in the following pricing period; +: surplus, will lower rates in the following pricing period)

Comment: under the CWaPE, only 10 % of the 2008/2013 balances could be included in 2016.

The table below shows the balances at December 31, 2016 for the regulated activity natural gas, as it was included in the annual reports of 2016 of the Infrac distribution network companies concerned (- deficit and booked as a claim, + surplus and booked as a debt).

Balances for natural gas distribution		
Balances of exogenous costs per 31/12/2015	(1)	34,218,511
Return of 50 % of balances 2008/2009 in 2016	(2)	-10,659,297
Return of 20 % of balances 2010/2014 in 2016	(3)	- 5,542,042
Balances of exogenous costs and volume differences in 2016	(4)	5,400,829
Total	(5)	23,418,001

(-: deficit, will raise rates in the following pricing period; +: surplus, will lower rates in the following pricing period)

These tables must be treated with the necessary reservation since the VREG has not yet definitely confirmed the balances 2010/2014 and these of 2016. The complete recovery is therefore only certain on the final confirmation of the regulator.

Stock of green power certificates (GPC) and combined heat and power certificates (CHPC).

The Flemish Government approved the introduction of a SGEI ('service of general economic interest') payment for the distribution system operators for performing their public service obligation by buying and selling GPCs.

The SGEI regulation, which is carried out via the Flemish Energy Agency (Vlaamse Energie Agentschap - VEA), is limited to GPCs for photovoltaic systems emanating from households and up to an amount of 15 million euro per DSO per year. This means that annually, Infrac can sell up to 60 (= 4 x 15) million euro of GPCs to VEA, which then takes them off the market and destroys them.

This regulation also provides that distribution system operators may trade eligible certificates among themselves.

The SGEI regulation replaces the 'banking' system. In other words, the guarantee from the Flemish Government for 466,238 GPCs at 93 euro per certificate and 118,875 CHPCs at 27 euro per certificate lapses.

In addition, we have determined that the regular sales through call for tenders on the market in 2016 have been successful for green power certificates. On the other hand, the combined heat and power certificates so to speak not get sold.

At the end of 2016 the stock of green power certificates and the combined heat and power certificates represented 109,4 million euro for Infrac, or a decrease of 144,2 million euro. The stock of certificates is included in the annual financial statements of the network operators under deferred charges and accrued income.

Stock	31/12/2015		31/12/2016		<i>Increase(+)/decrease(-)</i>	
	Number	Value	Number	Value		
GPC	2,694,659	239,461,182	927,136	81,699,923	-1,767,523	-157,761,259
CHPC	663,800	14,094,601	1,384,508	27,690,160	+720,708	+13,595,559
Total	3,358,459	253,555,783	2,311,644	109,390,083	-1,046,815	-144,165,700

VREG quality regulation

The Flemish Regulatory Authority for the Electricity and Natural Gas Market (VREG) has amended its tariff methodology in order to make the permitted income of a Distribution System Operator dependent in future on a quality factor q_i , determined based on the rating that the DSO earns for the quality of its service provision. In this regard, the following principles apply:

- the higher the quality of the service provision, the higher the permitted income and the higher the net tariff (and vice versa).
- Zero-sum principle: increase in the permitted income of a DSO is compensated by a fall in the permitted income of another DSO.

The following quality indicators will be measured:

- Power blackouts
- Complaints
- Late (re-)connections
- Customer satisfaction and involvement of stakeholders.

Already as from 2017, recording of quality is due to start according to the new VREG guidelines. In 2021, the q-factor will have an impact on the permitted income for the first time. The scale of the financial impact is limited for the time being. Infrax has already started work on the necessary implementation.

VREG reports on quality of electricity and natural gas service provision

Annually by 1 April, the distribution network operators provide a report about the quality of their service provision to VREG (according to the 'old' guidelines). VREG processes the results into one report for electricity and one report for natural gas. The reports give an indication of (the change in) the quality of the service provided by the distribution system operators. The quality of the service provision by Infrax DSOs is good. Overall, Infrax rates better than the average for Flanders.

Infra-X-net

The agreement with Telenet provides that the cable infrastructure will remain the property of the DSOs and that Infrax may provide certain services on this infrastructure to the cable municipalities.

In this context Infrax provides the following services to the municipalities via the cable network:

- Infra-LAN-net: this is the connecting of different buildings of the municipalities/OCMW to one computer network of their own;
- Infra-TEL-net: this is the connecting of telephony and telephone exchanges of buildings to the main building of the municipality. That main building will then be connected over the cable network with the Infrax shared telephony operator;
- Infra-INTER-net: the provision of broadband access to the internet via the cable network for the various buildings.

This new service is enjoying great commercial success: at the end of 2016, 85 municipalities, the province of Limburg and the province of West Flanders signed up for these services, which signifies a success rate of 93 % for the municipalities connected to the cable network.

Infra-Gis

Infra-GIS is a very comprehensive geo-information system which local authorities, among others, can use for spatial planning purposes. This application enables local authorities to make the right decisions about the public domain based on thorough geographical analyses. With Infra-GIS, Infrac makes its expertise, data, software and hardware available to local authorities.

More and more of them are getting to know this service, and signing a cooperation agreement with Infrac.

In 2016, 6 local authorities decided to sign up for this activity. By the end of 2016, 36 local authorities were making use of the service. They represent approximately 398,000 residents.

Project Roadrunner

Roadrunner is the name of the project for the expansion of the current bandwidth of 606/862 MHz to 1 GHz. This expansion is necessary because of the continually greater demand for data volume, speed, interactive services, HQ video, etc. To continue to meet this demand, the cable television network must be expanded continually. In 2016, 16% of all materials that were not 1GHz compatible, (main line amplifiers, distribution amplifiers, splitters, connection boxes and connectors) have been replaced. By the end of 2017, 50% of the cable television network will be converted. The rollout will continue until the beginning of 2019.

The cost price of Roadrunner for all of Infrac is estimated at 61 million euro, being ca. €110/connecting point.

Public Wifi

In 2015, the Board of Directors agreed to offer the cable municipalities 'Infrac Wifi' as a new service, and the 6 pilot projects were launched: Genk, Hasselt, Neerpelt, Diest, Diksmuide and Torhout.

During the first half of 2016, the focus was on practical experience, potential applications and big data aspect of these 6 pilot projects. In view of the success, next all the preparations will be started for a large-scale launch by the end of 2017. The public Wi-Fi's are connected to the glass fibre network of Infrac that connects municipal buildings with each other and with Infrac. The participating municipalities make a one-time investment in the hardware (access points, antennas, etc.), the civil electricity and network works, and the installation cost, whether or not financed from available funds of the DSO.

Data center for local authorities

A number of local authorities approached Infrac about whether it could meet their demand for a datacenter. The reason for this is ever-increasing complexity, but the security aspect and the guarantee about where the data is located also play a role. After agreement by the Board of Directors, an economic feasibility study was launched.

Besides the above-mentioned benefits, it also emerged that it was financially attractive for the local authorities. Since the provision of a data center fits into Infrac's strategy, the Board of Directors also agreed that the project should be launched.

Status Knex and Green power information service

With the Knex project, Infrac has completely overhauled and digitized its connection process. The project has been completed, and since 14 November 2016, Infrac has also had a brand-new online application: 'My Infrac'.

Via this application, the only one of its kind in Europe, customers sitting at home can apply for a connection to electricity, natural gas, cable TV and sewerage, all in less than 20 minutes, as well as receiving a price quote and a tailor-made milestone plan for the works that need to be carried out, and they can even choose the date when the technicians will make the connections. The payment of the bill is the only thing that happens later.

This digital connection process has tremendous advantages for customers and for Infrac itself.

Also, as a Distribution System Operator, Infrac has also been operating since 23 November 2016 as a single point of contact for processing of green power certificates for solar panels via My Infrac.

Sewerage

Infrac provides sewerage services in 83 municipalities. This makes Infrac the largest sewerage operator in Flanders.

In 2016 43,4 million euro were invested in the sewage system. This is 0.7 million more than in 2015.

In order to achieve the European objectives in the field of improving water quality, considerable financial resources are necessary for investment in and management of sewerage. Infrac sees various possibilities for ensuring a balanced financing:

- an increase in the municipal purification contribution on the drinking water bill;
- the introduction of a capacity component in the municipal purification contribution;
- an increase in the investment grants from the Flemish region for expansion investments, replacement and maintenance of the existing system;
- the introduction of an avoidable contribution for the accelerated drainage of rainwater;
- a sufficient annual increase in the Municipal Fund so that the municipalities are in a position to finance the balance from their general funds.

The Boards of Directors of Inter-aqua, Riobra, Infrac West and Iveg create municipal sewerage funds.

The municipalities can finance the following activities through these sewerage funds:

1. investment grants for investments without the intervention of the Flemish Region;
2. (additional) grants for works in the private domain;
3. road construction combined with sewerage- and possibly road repairs.

The creation of a sewerage fund will also provide a major impetus for additional investment in sewerage infrastructure.

New tariff structure for the water purification levy from 2016 onward

The Flemish Government reached an agreement on 12 June 2015 about a new uniform rate structure for drinking water and the water purification levy starting on 1 January 2016.

A fixed component with a family correction is being introduced. For the usage two rates are applied: a basic rate for usage limited to 30 m³ per residential unit and increased by 30 euro per person domiciled. The rate is doubled ("comforttarief") for any usage above that.

The maximum tariffs 2016 are:

- Standing charge per household : 30 euro/year min. 5 euro per inhabitant (max. 5)
- basic tariff : 1.3033 euro/m³
- comfort tariff : 2.6066 euro/m³

In all municipalities which are affiliated to Infrac for sewerage, the maximum permitted water purification levy applies. Only the municipalities of Essen and Lille, which are affiliated to Iveg, opted for a lower levy.

For individual treatment (IBA), the basic tariff is € 2.2342/m³ and the comfort tariff € 4.4684/m³.

Enforcement of sewerage regulations

Infrac is responsible for arranging inspection of private water drainage in the event of disconnections in the context of sewerage projects and new construction. Whether grants are obtained or not for sewerage projects is linked by the Flemish Environment Agency (VMM) to disconnection on private land. For inspections of new building, Infrac also has to report to the VMM (as the regulator).

Notwithstanding the tremendous work done by Infrac in the field of communication and advice to make sure that disconnections on private land and inspection of sewerage projects and new construction go properly, an enforcement framework appears necessary. In view of the various avenues explored, it is proposed that the partners in Infrac choose between two solutions:

- the introduction of a tax regulation;
- issuing environmental fines.

If the municipality does neither, it is proposed to charge the cost of financing the uncollected grant in order to maintain the solidarity within IGS.

Accession to Synductis

Synductis is a joint venture between various utility companies. By coordinating the infrastructure works of various utility companies, Synductis aims to reduce nuisance and provide faster, lower-cost service.

Infrac has joined Synductis for municipalities where we are only the sewerage system operator, and only with regard to the planning aspect.

Clean Power for Transport: roll-out of charging terminals for electric vehicles

In accordance with European Directive 2014/94/EU, all Member States must draw up a "Clean Power for Transport" action plan, aimed at promoting a breakthrough for electric vehicles. In that context, Flanders is due to install a number of publicly accessible charging terminals by December 2020. The Flemish Government approved a decision on 25 March 2016 with regard to the charging points based on the "Clean Power for Transport" concept document.

Main aspects of this decision:

- The roll-out of the charging points is a public service obligation for DSOs in Flanders.
- The DSO must draw up a local situation plan for the charging points in consultation with the municipality where the charging point is to be installed. By 2020, 2,500 charging terminals (= 5,000 charging points) are due to be installed in Flanders, 526 of those charging terminals to be installed by Infrac.

- The DSOs must issue calls for tender and award contracts for the installation, maintenance and commercial operation of the charging terminals. If desired, the municipalities may issue the calls for tenders themselves. It is important that contracts should be awarded on condition that costs do not exceed the revenues. If there are no candidates for the said contract award, then the DSO must undertake the installation and maintenance of the charging terminals itself and only award a contract for the commercial operation.
- The Flemish DSOs will set up a joint database with the data of the charging terminal operators. There is a reporting obligation for the existing and new semi-public charging terminals.
- An information point is due to be set up for the terminal-follows-car function.

Infrax and Eandis are also cooperating due to the economies of scale and cost savings.

Pooled purchasing of CNG vehicles

The main advantages of CNG cars are, of course, that they are environment-friendly and enjoy low fuel costs. The disadvantages are the number of public service stations that is rather limited at present, and the purchase price which is slightly higher than that of a conventional vehicle. The pooled purchasing of CNG vehicles arranged by Infrax enabled substantial discounts to be obtained on the list price. In addition, Infrax offers local authorities a grant of 2,000 euro when ordering a CNG vehicle (max. 3 grants per municipality). By installing a slow-fill system, the local authority can arrange refuelling at very low cost under its own control.

Joint procurement by municipalities

Infrax offers his municipalities the possibilities for 'joint procurement'. Infrax facilitates the full procurement process and put its expertise, in the form of a central contracting department, at the disposal of the municipalities. By economies of scale, this cooperation, in addition to administrative simplification, should lead to financial savings by the municipalities.

The organisation, the working methods, the tasks and responsibilities have been described in a cooperation agreement to be concluded between Infrax and the municipalities.

This cooperation agreement has now been signed by 74 local authorities and the province of Limburg, as well as a number of police and emergency service zones.

In the meantime, the following joint procurement programmes for the municipalities have been realised or have been initiated:

- Roadside weed control + monitoring (zero measurement)
- Electronic luncheon vouchers
- External service for health and safety at work ("EDPBW")
- Medical inspections
- CNG-vehicules
- Slow-fill-installations

Pension funds: transition from Branch 21 to Branch 23

All Infrax DSOs have entered into a pension contract with Ethias for their statutory personnel. These funds were managed in Branch 21 - except at Infrax West where over 2/3rds of the funds are managed in Branch 23 by KBC and Candriam as fund managers. In Branch 21, there is an annual guarantee on the capital and the return. In Branch 23, no guarantee is given.

31/12/2015	Infrax Limburg	Infrax West	Iveg	PBE	Total
Pension reserves	207,930,617	171,423,844	31,937,401	30,210,242	441,502,104

With the new Insurance Supervision Act of 2016, the specific preferential right to the individual assets of the Branch 21 funds if the insurance company goes bankrupt have been abolished and replaced by a general preferential right, together with all ordinary and preferential creditors. This specific preferential right is maintained, however, per investment fund under Branch 23. In addition, there are a number of financial advantages that justify a switch to Branch 23.

The Board of Directors also agreed the switch from Branch 21 to Branch 23. Ethias was asked to ask a market consultation process for the appointment of three fund managers, according to a 'conservative' investment profile. The chosen fund managers were KBC Asset Management, Candriam and Bank Degroof Petercam. At the end of 2016, 44 million euro had already been transferred to Branch 23. It is intended to transfer the rest during the first half of 2017.

Legal framework

In 2016 the Infrax-DSOs were involved in the following procedures:

1. Boonen e.a./Electrabel: In this case more than 1,600 parties were claiming before the Justice of the Peace in Deurne (a provisional reimbursement for) the repayment of the distribution fees paid since 2009, as well as a ban on charging distribution fees in the future on the basis of article 49 (sic) of the Law of December 15, 2009 (which, among other things, enacts two Royal Decrees on tariffs). Their claim was based on a judgement by the Constitutional Court on May 31, 2011 which annuls the legal enactment of certain articles from the tariff regulations, which according to the claimants would remove any basis for charging distribution fees. Their claim was directed against Electrabel, and was subsequently extended by the claimants to Electrabel Customer Solutions. Electrabel has served a third-party notice upon almost all Belgian operators. Both the Belgian State and the CREG were involved in the case. In his judgement of January 31, 2014 the Justice of the Peace stated that he had no jurisdiction on the matter and referred the case to the Court of Appeal in Brussels. No evolution has been noted since.
2. Booms en Asman/CREG: In April 2011 the CREG had adjusted the distribution tariffs of Interenerga and Iveg. Those decisions were challenged by two natural persons at the Brussels Court of Appeal. In June 2012 the Court considered that the tariff adjustment was justified, but that the CREG based this on an incorrect legal provision. The Court pointed out, however, that it would be advisable that the consequences of the decisions of the CREG temporarily remain in force until the latter could take new decisions. Nevertheless, the Court found, that the Electricity Act did not empower it to order that the consequences of an illegal decision by the CREG remain in force temporarily, while the Council of State does have such powers. The Court of Appeal therefore asked the Constitutional Court whether this is discriminatory or not. In its judgement of July 9, 2013 the Constitutional Court considered that it is not contrary to the constitutional principle of equality.

Meanwhile, the CREG had instituted a provision in cassation against the judgement of the Court of Appeal. This provision is currently pending. The Court of Cassation has fully rejected the cassation appeal in his judgement of November 23, 2015. The case can be heard again before the Court of Appeal in Brussels. It is not that likely that this will still happen in view of the fact that the responsibility for tariffs now lies with the regions.

3. Zonstraal/VREG: On 1 July 2014, the pricing authority with regard to distribution network rates for electricity and gas was transferred from the federal level to the Regions. Implementing its new pricing authority, the Flemish energy regulator, VREG, adopted a pricing methodology for the regulatory period of 2015-2016 on 30 September 2014. Zonstraal, a sector association for solar energy, together with two natural persons (who indicated that they are owners of solar panels) have initiated an appeal for the suspension and annulment of this pricing methodology at the

Court of Appeals at Brussels. Because the VREG, however, was of the opinion that only the Council of State was authorised to take cognisance of appeals against decisions of the VREG, the requesting parties then initiated an appeal (for the suspension and annulment) of this same pricing methodology at the Council of State. The four distribution system operators of the Infrac group Iveg, Infrac West, Inter-energa and the PBE (the "Infrac-DSOs") joined the procedure before the Council of State in support of the VREG.

The Court has in (the motivation of) an interlocutory judgment indicated that it is competent, but it has suspended dealing with the case awaiting a final pronouncement of the Council of State in order to avoid contradictory pronouncements.

By a judgement of 1 October 2015 the Council of State rejected the request for suspension because of a lack of urgency, without pronouncing on its competence. Then the requesting parties asked that the legal proceedings be continued. On May 17, 2016 the Infrac DSOs have submitted their last pleadings.

4. Lampiris/VREG: In this case Lampiris has initiated a series of appeals at the Council of State for the annulment of the decisions of the VREG of December 2014 for the approval of the rates of the Flemish distribution system operators (including the Infrac DSOs). These procedures are directed against *individual rate decisions* of the VREG (see no. 3 above). The Infrac DSOs have joined in the procedures that relate to the approval decisions relating to their electricity and gas rates.

In the case related to Inter-energa (natural gas) an Auditor's report was lodged on 30 September 2015. The Auditor states that from a pragmatic viewpoint, the preferable option is to submit a report in only one of the cases and to wait for a judgement on that case before submitting a report on the other cases. In the report of 30 November 2015, the Auditor states that the Council of State has no judicial authority to take cognisance of disputes concerning rate decisions, and decided on the rejection of the appeal of Lampiris.

On 17 February 2016, Lampiris withdrew from the case

5. Proximus activation claim: On 28 June 2008, the bringing-in of the digital and analogue cable customers and the cable television products of Telenet was agreed, and a long-term lease was secured on the cable network for 38 years.

This was actually implemented on 1 October 2008 by the recording of the notarial deeds.

In response to the acquisition of the cable television customers and the establishment of a long-term lease to the cable network by Telenet, Belgacom, now Proximus, has initiated a claim at the Court of First Instance for the annulment of the contracts and for obtaining remuneration for damages. At first instance, this claim was rejected (verdict of 6/4/2009). Hereupon Proximus has initiated a higher appeal at the Court of Appeals at Antwerp. But the case has been assigned to the cause list.

In response to a judgement of the Council of State in this case (dd. 26 May 2014), Proximus has submitted a Statement in Support of Claim accompanied by a report of Frontier Economics. Proximus demands in its statement that the complete documents related to the agreement between Telenet, Interkabel and the cable companies be made available. At the same time, it is asking for these agreements to be declared invalid and, based on an expert report that it commissioned, it is seeking compensation of 1.4 billion euro. The aforementioned contracts do contain, via an indemnity mechanism borne by Telenet, a limitation of liability for the cable companies. The Board of Directors has therefore decided to book a provision out of precautionary considerations in function of that contractual arrangement. The Board of Directors is persuaded that the risks and associated uncertainties, taking into account all known current elements, have been sufficiently provided for in Interkabel and/or the annual accounts of the DSOs concerned.

Rating A with stable outlook

The rating agency Fitch confirmed the rating on December 13, 2016: a flat A-rating with a stable outlook. Thanks to the strong link with the public shareholders and the Flemish government there was

an uplift of 1 'notch': from A- to A. This qualitative rating on the one hand reflects the solid financial basis and, on the other hand, the confidence of stakeholders in the strategy of the group.

A rating is an informed judgement on the credit worthiness of an issuer of bonds and is an important criterion that institutional investors use. A rating also gives more financing flexibility and strengthens the image of Infrac as a reliable financial partner. In addition, the VREG bases itself on companies with an A-rating to determine the 'allowed' financing costs.

Financial instruments

Infrac makes use of financial instruments such as referred to in Article 96, 8° of the Companies Code. To cover its long-term loans, an interest rate swap on a loan of 70 million euro was concluded in 2011 with a duration of 20 years till 2031.

Investments

The Infrac group made investments in 2016 worth a total value of 211,6 million euro gross. This is 8,9 million euro more than in 2015.

Investments per activity in millions of euro					
Electricity	Natural gas	Sewerage	CTV	Miscellaneous	Total
82,1	36,2	43,4	38,2	11,6	211,6
(-2,5)	(+0,2)	(+0,7)	(+14,4)	(-3,9)	(+8,9)

Result

Infrac cvba operates as a 'cost and revenues centre'. Infrac cvba provides for operations in the name and on behalf of its shareholders. The result is that the costs and revenues that Infrac realises on behalf of its members are offset via the balance sheet. Only the costs of Infrac itself appear on the P&L accounts. These are mainly its own staffing costs, costs related to the head office and ICT costs (hardware). Also, the cost of the pilot projects 'smart meters' and 'Atrias' are booked within Infrac cvba.

Infrac's profit is 189.187 euro. There is no financial profit or extraordinary profit.

It will be proposed at the General Meeting to add an amount of 9.459 euros to the legal reserves, and the balance, 179.728 euros, to be paid out to the shareholders as dividends.

Important events after the closure of the annual accounts for 2016

There are no important events after the closure of the annual accounts to be mentioned that might have an impact on the accounts.

Comments and notes to the balance sheet and the statement of operating income & expenses for 2016

Please refer to the comments contained in the statutory annual accounts and the appendices to the statutory annual accounts.

The Board of Directors proposes the following for the General Meeting:

- a) to approve the annual accounts and the included processing of the profits as proposed;
- b) and to grant discharge to the directors and the auditor for the exercise of their duties.

The board of directors finally would like to thank the staff for their commitment and dedication, as well as the shareholders for their firm and lasting confidence.

Wim Dries
Chairman