

Report of the Board of Directors of Infrax cvba for the financial year 2017
to the General Meeting of 28 march 2018

In accordance with the legal and statutory provisions we report on the activities of Infrax cvba during the past financial year and we present the annual accounts of 2017 for approval.

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

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, sewerage and heating.

Composition of the Board of Directors

As provided for in article 17 of the articles of association, the Board of Directors is composed of nineteen directors. Also 3 observers are part of the Board of Directors. The composition was as follows at 31 December 2017:

Dries Wim (chairman)

Awouters Eric
Bisschops Bart
Brepoels Frieda
Claessens Jos
Cluckers Geert
Dochy Bart
Drieskens Raf
Gryffroy Andries
Lansens Patrick
Laridon Lies
Lemmens Luc

Maertens Bert
Meulemans Bert
Reynaerts Didier
Schiltz Willem-Frederik
Vanvelthoven Peter
Verbeeck Paul
Wynant Luc

Dehaene Tom
Stulens Jos
Vandeputte Didier (observer)

Composition of the Audit committee

As provided for in article 25 of the articles of association, the Board of Directors established an Audit committee. The composition was as follows at 31 December 2017:

Laridon Lies (chairwoman)

Bisschops Bart
Dries Wim
Meulemans Bert
Reynaerts Didier
Verbeeck Paul

The Audit committee met three times in the course of 2017. The main issues covered in the Audit committee:

- Results of the audits conducted by Internal Audit Infrax and the follow-up of the recommendations from previous audits
- ISAE certificate
- Financial reporting.

The Audit Committee reports on his findings to the Board of Directors.

Composition of the HR committee

As provided for in article 25 of the articles of association, the Board of Directors established a HR committee. The composition was as follows at 31 December 2017:

Dries Wim (chairman)

Awouters Eric
Cluckers Geert
Lemmens Luc
Meulemans Bert
Wynant Luc

The HR committee is following developments in the HR policy and formulates recommendations. The HR committee met one time and discussed, among others, incentives for the executive staff and the general remuneration policy. The HR committee reports to the Board of Directors.

Composition of the Strategic committee

The composition of the Strategic committee was as follows at 31 December 2017:

Dries Wim (chairman)

Bisschops Bart
Dochy Bart
Gryffroy Andries
Laridon Lies
Schiltz Willem-Frederik

The Strategic committee discusses the overall strategy and reports to the Board of Directors. They met 3 times in 2017.

The management committee

The daily management of Infrax is entrusted to the management committee. The 8 members of the management committee at 31 December 2017 are:

Vanbrabant Frank (CEO)

Beliën Eric (director HR)	Coomans Paul (director network exploitation)
Bellers Raf (director 'network synergy)	Remmerie Herman (director strategy and regulation)
Buyse Chris (director finance)	Van Rompaey Filip (director ICT)
Ceuppens Tom (director network operation and customer service)	

Merger of Infrax with Eandis

Negotiations started with Eandis about extensive cooperation back in 2015. In July 2016, that led to a memorandum of understanding (MoU) which established the framework for future collaboration. An immediate start was made on joint preparation of the roll-out of smart meters. At the same time, a consultant was commissioned to explore options for cooperation in other areas. It became clear, based on a thorough analysis, that complete collaboration by both operating companies was the best course of action.

The Boards of Directors of Infrax and all Infrax DSOs agreed in March and April 2017 for complete integration. At the beginning of May, information sessions were arranged for all the local authorities.

The complete integration was to be carried out by means of a merger by a take-over of Infrax by Eandis System Operator (s.o.). Eandis s.o. subsequently changed its name to Fluvius cvba. The intended date of the merger and the name change is 1 July 2018 with retroactive accounting effect from 1 January 2018.

Infrax's contractual personnel will be taken over as from 1 July 2018 by Fluvius CVCA. The statutory personnel will be transferred to Infrax Limburg OC, which will change its name to Fluvius OV. The statutory personnel will be seconded by Fluvius OV to Fluvius cvba.

Prior to this operation, all assets of Infrax Limburg will be transferred to Inter-energa, Inter-aqua or Inter-media, the articles of association will be amended and the name will be changed to Fluvius OV.

Position paper of the Flemish Government on distribution system operators and operating companies

In the context of the government agreement of 2014-2019, the Flemish government approved the position paper 'Future vision for the distribution system operators and their operating companies and the financing intermunicipal companies in the light of a decentralised, low CO2 energy supply' on 5 May 2017. It is important to state that the reorganisation described above is completely consistent with the Flemish government's position paper.

The most important aspects of the position paper:

- The local authorities must still choose within the term of this legislature one distribution system operator which will be responsible for both gas and electricity distribution.
- Flanders will be divided into homogeneous, local geographically adjacent exploitation territories to increase the operational efficiency.
- The exploitation and all activities will be carried out by one operating company, Fluvius.
- The Boards of Directors of the DSOs will be streamlined to a maximum 15 members with voting rights, of which 1/3rd will be of the other gender.
- Each local authority remains represented in regional management committees in order to deal with subjects of local interest. These mandates will be unpaid.
- The Fluvius Board of Directors will consist of a maximum of 20 members (possibly including independent directors) and will consist of at least one representative per DSO.
- Existing regulated and non-regulated tasks or services will be evaluated as well as future new tasks and services.
- Participating interests in local renewable energy projects could be grouped into a 'Flemish Municipal Renewable Energy Holding Company'.
- Stakes in Elia (Publi-T) and Fluxys (Publigas) should be held as far as possible via the DSOs.

- The tasks of the umbrella organisations Intermixt and Inter-regies should be carried out wherever possible within Fluvius.
- The aim is to enable Fluvius to expand into one Flemish utility operating company with the following activities: electricity, natural gas, cable, sewers and heat.

Four Walloon local authorities affiliated to PBE are switching to ORES

The PBE has been compelled to bid farewell to 4 Walloon local authorities (Chastre, Incourt, Perwez and Villers-la-Ville). Since July 2014, powers to set prices have been a matter for the regions, and the tariff methodology of VREG and CWaPE have diverged sharply. This means that the Walloon local authorities will have to bear the costs associated with the Walloon tariff methodology themselves, and the economies of scale will be lost, which will result in a substantial rise in prices for these Walloon local authorities.

The 4 Walloon local authorities left PBE with effect from 1 January 2018 and joined ORES.

Exit of the Provinces

In accordance with the decree on inter-municipal cooperation, the Provinces had to leave the DSOs by 31 December 2018. This decree obligation applies to Infrax Limburg, Inter-media, Inter-energa, Infrax West and PBE.

In accordance with the terms of the articles of association, West Flanders Province will receive an amount of 6 million for its share in the balance sheet when it leaves. An agreement was reached between the Province of Limburg and the Limburg DSOs with repayment of the share capital (46.2 million euro). At Infrax Limburg, the Province will already leave on 1 January 2018. For Inter-energa and Inter-media, it will leave on 1 January 2019.

For PBE, negotiations with the Province of Flemish Brabant are ongoing. Together with the departure of 4 Walloon local authorities (see above), the provisions of Walloon Brabant left PBE for an amount of 0.8 million euro in January 2018.

Exit from Inter-Regies

In accordance with the Flemish government's position paper, all Infrax DSOs have decided to leave Inter-Regies. The Walloon members have decided to keep Inter-regies in operation.

Local authority of Sint-Pieters-Leeuw joins for the sewerage activity

As a result of the Flemish local authorities leaving Vivaqua, a Brussels intermunicipal company operating in water distribution and sewerage, the local authority of Sint-Pieters-Leeuw decided to join Riobra for its sewerage activities with effect from 1 January 2018.

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

The operational start-up of Warmte@Vlaanderen was subject to approval by the Belgian Competition Authority. As of 31 December 2017, that approval was not forthcoming.

In view of the merger between Eandis and Infrax, it was decided at the beginning of 2018 to dissolve Warmte@Vlaanderen. The heating activities will be developed within Fluvius cvba.

Infrax heating projects - status on 31/12/2017

Antwerpen Nieuw Zuid

The project was started in 2015. The new city district will have around a population of 5,000 in about 1,900 homes by 2018. At the end of 2017, over 500 of the future 1,900 heat customers at Nieuw Zuid were connected. The next phase of construction was put out to tender in 2017. The building shell of the backup heat facility was largely completed in 2017 and it is forecast to start operation in summer 2018.

Antwerp South backbone

The city of Antwerp intends to use the industrial residual heat in the city outskirts for building heating. In 2017, a study was launched for the connection of the residual heat in the southern outskirts, including from the waste energy power station operated by Isvag in Wilrijk. The aim is to lay a heat backbone of around 14 km to South Antwerp (Antwerpen Zuid). The necessary preparations, contacts and authorisations have been initiated with the various stakeholders including the municipality of Antwerp and the Flemish government.

Antwerp Blue Gate

After the development of Antwerp's Nieuw Zuid district, the Blue Gate Antwerp Deme (BGAD) is hard at work on a brownfield development on the sites of the old oil terminal. The aim is to develop the area covering around 70 hectares as an SME zone. BGAD will also be laying a heat network here. Infrax has been advising on the project. Since Blue Gate is in IMEA's operating territory, this heat network will be taken over afterwards by IMEA.

Harelbeke

The Harelbeke heat network, supplied with residual heat from the IMOG waste incineration station was partly laid in 2017. The connection to the heat production station was not carried out in 2017 due to the delay in the works on the lock.

Other potential heat networks

During the course of 2017, various local authorities asked questions about the possibility of having a heat network in their area. Infrax has established the principle that there must be a prospect of a sustainable heat source in the environment. After all, without that kind of source, there can be no question of cutting down on CO2 emissions, which has to be the ultimate aim of a heat network.

Atrias

Within the energy sector, the DSOs exchange various data with suppliers and other third parties (new connection, moving home, switch of energy supplier, etc.). Every DSO has their own clearing house (= data interchange system) for this purpose. Already a few years ago, it was decided to proceed with setting-up one central system, a federal clearing house, Atrias. The launch of this central clearing

house has already been postponed several times, and it will now start operation at the beginning of 2020. Until the end of 2017, the costs for participation in this project have amounted to 33.8 million euro.

Net electricity and natural gas tariffs 2017

On 7 October 2016, VREG announced the permitted income for 2017, and on 20 December 2016, the tariffs for 2017 were set.

Electricity	2017	2016	%
Permitted income	417,293,283	450,702,607	-7.4%

The average net electricity tariff fell by 7.2% in 2017. This fall is a consequence of the abolition of the ceiling on the solidarization of green electricity and combined heat and power certificates. The impact of 2014 and 2015 was incorporated into the 2017 tariffs.

Natural gas	2017	2016	%
Permitted income	88,302,701	71,121,212	+24.2%

The average net natural gas tariff rose by 24.2% in 2017. This increase is the consequence of the end of the refund of the surpluses of 2008 and 2009 in the 2015 and 2016 tariffs.

Regulatory balances as of 31 December 2017

Until the end of 2014, the regulatory framework according to the cost-plus methodology was applied by CREG. That made a distinction between 'manageable' and 'non-manageable' costs.

The difference between the estimated and actual non-manageable costs are included as an amount receivable ('regulatory asset') or amount payable ('regulatory liability') and are offset in a later tariff period. The difference between the actual sales volumes and the volume estimated in the budget is offset in a subsequent tariff period. These differences result in an increase or a reduction in the future tariffs.

As from 2015, the VREG price cap applies, where a distinction is made between exogenous costs and non-exogenous costs. Exogenous costs are costs on which the DSOs have no impact at all according to VREG. They are listed exhaustively by VREG. Balances of the exogenous costs and the exogenous volume differences are offset in the next tariff period.

VREG decided to recover the balances 2010-2014 over a 5-year period, starting in 2016. Previously VREG had already decided to offset the balances for 2008-2009, which were already formally approved by CREG, in the 2015 and 2016 tariffs.

The table below shows the status of the balances as of 31 December 2017 for the regulated activity electricity, as incorporated in the 2017 annual financial statements of the Infrax distribution system operators concerned (- deficit, posted as a receivable, + surplus posted as an amount payable).

Electricity - distribution balances		
Balance of exogenous expenses as of 31/12/2016	(1)	-171,799,561
Recovery of 20% balances 2010/2014 in 2017	(2)	+58,331,334
Recovery of balances 2015 in 2017	(3)	-28,029,366

Corrective posting of balances of exogenous expenses and volume differences 2016	(4)	+37.363
Balance of exogenous expenses and volume differences 2017	(5)	+1,419,349
Total electricity - distribution balances	(6)	-140,040,881

(-: deficit, increases the tariffs in next tariff period; +: surplus, lowers the tariffs in next tariff period);

The table below shows the surplus as of 31 December 2017 for the regulated activity of natural gas, as it was incorporated into the 2017 financial statements of the Infrax distribution system operators concerned (deficit and posted as an amount receivable + surplus and posted as an amount payable).

Balances natural gas - distribution		
Balance of exogenous expenses as of 31/12/2016	(1)	+23,418,001
Recovery 20 % of balances 2010/2014 in 2017	(2)	- 5,542,042
Recovery of balances 2015 in 2017	(3)	+1,822,171
Corrective posting of exogenous expenses and volume differences 2016	(4)	+80
Balance of exogenous expenses and volume differences 2017	(5)	+2,811,927
Total balances for natural gas	(6)	+22,510,137

(-: deficit, increases the tariffs in next tariff period; +: surplus, lowers the tariffs in next tariff period)

These tables must be treated with the necessary caution, because VREG has not yet definitively confirmed the balances 2010-2014 and the balances of 2017. Complete recovery is therefore not certain when the regulator confirms the figures definitively.

Stock of green power certificates (GPCs) and combined heat and power certificates (HPCs).

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 for buying and selling GPCs and HPCs.

With the SGEI scheme, which is implemented via the Flemish Energy Agency (FEA), certificates are bought and taken off the market. In this way, it is intended to bring supply and demand back into balance. In 2016 the SGEI scheme was limited to GPCs for photovoltaic systems coming from households, and to an amount of 15 million euro per DSO per year. In 2017, this was extended to all GPCs and HPCs. In 2017, FEA purchased 140 million euro of certificates from Infrax (100.4 million GPCs and 39.6 million HPCs).

In addition, we observed that the regular sales via tenders on the market this year were successful for GPCs.

At the end of 2017, the stock of green power and heat and power certificates represented 8.6 million euro, or a reduction of 100.8 million euro. The stock of certificates is included in the annual accounts of the distribution system operators under deferred charges and accrued income.

Stock	31/12/2017		31/12/2016		Increase(+) / reduction(-)	
	Quantity	Value	Quantity	Value	Quantity	Value
GPCs	93,106	8,193,328	927,136	81,699,923	-834,030	-73,506,595
HPCs	20,369	407,380	1,384,508	27,690,160	-1,364,139	-27,282,780
Total	113,475	8,600,708	2,311,644	109,390,083	-2,198,169	-100,789,375

Natural gas L/H-conversion

At present, two types of gas are imported and distributed in Belgium: high-calorie gas (H-gas) from Algeria, Norway, the UK, Qatar, etc. and low-calorie gas (L-gas) from Groningen (NL). The production of L-gas from Groningen has already declined in recent years and will reduce even more sharply in the next few years. Therefore, a conversion from L-gas to H-gas is necessary.

In Belgium as a whole, a conversion needs to happen for 1.6 million customers by 2030, 135,000 of them Infrax customers. Infrax is making the preparations to carry out about 50,000 installations by June 2018 in the city of Antwerp (Hoboken and Kiel) and in a number of local authority areas in the provinces of Limburg and Flemish Brabant.

Joint data hub with Elia

Within Synergrid, an agreement has been reached between Elia and the Belgian DSOs for a joint data hub with Elia. The hub will be used to exchange data of the flexibility services supplied to Elia and vice versa, as well as with the market parties involved.

The data hub collects data from individual supply points but also aggregates volumes per market party across all supply points.

The data hub will make a number of processes possible:

- Settlement between the flexibility service provider (FSP) and the flexibility requesting party (FRP)
- Settlement between the FSP and the distribution system operator
- Perimeter correction
- 'Transfer of energy' settlement
- Monitoring and reporting of the federal market operation across all voltage levels
- Regional monitoring and reporting.

A pilot project was started up with the planned starting date of 1 January 2018.

VREG quality regulation

The Flemish Regulatory Authority for the Electricity and Natural Gas Market (VREG) wishes to make the permitted income of a Distribution System Operator dependent in future on a quality factor q , 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.

As from 2017, recording of quality started 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.

Infra-X-net

The agreement with Telenet provides that the cable infrastructure will remain the property of the DSOs and that Infrax may offer certain services on this infrastructure to the local authorities that are shareholders for the cable business.

In this context, Infrax offers the following services via the cable network to the local authorities:

- Infra-LAN-net: this is the connection of various local authority buildings to one specific computer network;
- Infra-TEL-net: this is connection of telephony and telephone exchanges of buildings to the local authority's main building. This main building is then connected via the cable network with the telephony operator shared with Infrax;
- Infra-INTER-net: the provision of broadband Internet access from the various buildings via the cable network.

This services has been a great success: by the end of 2017, 87 local authorities, the Province of Limburg, the Province of West Flanders, 2 fire service zones, 6 police zones and 5 public-sector companies joined this activity, which means a success factor of 93% for the local authorities affiliated to the cable service.

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, Infrax makes its expertise, data, software and hardware available to local authorities.

More and more of them are making use of this service, and signing a cooperation agreement with Infrax.

In 2017, 7 local authorities decided to sign up for this activity. In total, 43 local authorities are using this service, which is an increase of approximately 20%.

Project Roadrunner

RoadRunner is the name of the project that enables extension of the current 606/862 MHz bandwidth to 1 GHz. That extension is necessary due to the ever-greater demand for data volume, speed, interactive services, HQ video, etc.

After having started a gradual roll-out in 2016, another 40% of all equipment that was not 1 GHz compatible was replaced in 2017: trunk amplifiers, distribution amplifiers, splitters, junction boxes and connectors. At the end of 2018, 100% of the cable television network will have been converted.

The cost of Roadrunner is estimated for the whole of Infrax at 56 million euro, or approximately €100 per connection point.

Public WiFi

In 2015, the Board of Directors agreed to offer the cable municipalities 'Infrax Wifi' as a new service, and 6 pilots 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.

The public WiFi networks were connected to the fibre optic network of Infrax which connects municipal buildings to each other and to Infrax. The participating local authorities are making one-off investments in antennae and civil engineering works for electricity and the network. This installation cost is being financed in some cases from funds available from the DSO.

In 2017, work started on the large-scale launch. At present, 26 zones are in service, and another 16 zones are being built. As of today, the 26 WiFi zones in service serve an average of 12,000 WiFi customers per day.

Infra-X-enter (data center for local authorities)

A number of local authorities approached Infrax about whether it can make its data center available. The reason for this is the ever-increasing complexity as well as the security aspect and the need for a guarantee about where the data is located. This means that some of the requirements of the GDPR regulation are already being met. 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 Infrax's strategy, the Board of Directors also agreed that the project should be launched.

Meanwhile, the first data center has become operational. It meets modern standards and is very energy-friendly (PUE of 1.08). The second data center will be built in 2018.

We will be starting with 15 local authorities signed up, which is far above the objective set for 2017. At the same time, a number of police zones and local authority providers will also run their activities from the Infrax data center.

Fiber to the Home (FTTH)

Back in 2015, Infrax and Eandis wrote a paper with McKinsey on 'FTTH/FTTB, Leveraging Flanders'. From this study, it emerged that FTTH will certainly be needed in the future. The business case shows that FTTH can be viable.

Infrax and Eandis aim jointly - in close cooperation with the Flemish cities and local authorities - to lay the telecommunication infrastructure of the future in a viable way which provides an optimal response to the objectives of Flemish society.

Objectives	Solution
Lowest social cost & lowest tariffs	Infrax and Eandis are investing with an investment horizon of 33 years and a modest IRR. No duplicated laying of networks.
For all the people of Flanders (no digital divide)	Aim to connect almost all of Flanders.
Free and fair competition - level playing field	Open network with transparent and non-discriminatory pricing. Possibility for several parties to invest in the network.

The aim is to build an open FttH network where we offer (1) access to the physical layer of the FttH network to the larger operators and (2) access to the active network layers (bitstream) to the smaller service providers.

The time aspect is important here. Cherry-picking the most viable areas by commercial players increases the social cost and definitely must be avoided.

The Board of Directors agrees to a start on the pilot areas in both rural and urban areas. The intention is to cover 15,000 households. The cost price for the pilot areas is estimated at approximately 30 million euro. Interested telecom operators can also operate in the pilot areas.

Lighting plan

In order to come up with a clear public lighting policy, Infrax wishes to expand its services. Local authorities have been offered the possibility of drawing up lighting plans. In the first instance, the local authority is divided into various public lighting zones, and a technical information sheet is drawn up for each zone. Next action plans are drawn up with the local authorities. Infrax will make use of qualified partners for the implementation of the various action plans. In 2017, pilot projects were started in some local authority areas.

Sewerage

Infrax provides sewerage activities in 83 local authority areas. That makes Infrax the largest sewerage system manager in Flanders.

In 2017, 63.8 million euro was invested in the sewerage system. That is 20.4 million more than in 2016.

In order to implement European objectives for improvement of water quality, substantial financial resources are needed for investments in and management of sewerage systems. Infrax sees various possibilities for ensuring sound financing:

- increase in the local authority sanitation contribution on drinking water bills;
- introduction of a capacity component into the municipal sanitation contribution;
- increase in the subsidies from the Flemish Region for expansion investments, replacement investments and maintenance of the existing system;
- the introduction of a preventable contribution for accelerated run-off of rainwater;
- adequate annual increase in the local authority fund so that local authorities are in a position to finance the residual amount from their overall budget.

The Boards of Directors of Inter-aqua, Riobra, Infrax West and Iveg are setting up sewerage funds per local authority. Local authorities can finance the following activities via the sewerage funds:

subsidies for investments without involvement of the Flemish Region;
(supplementary) subsidies for works on private land;
road works combined with sewerage and possibly road repairs.

Due to the setting-up of these sewerage funds, a significant boost is given for additional investment in infrastructure and we ensure that all income flows back into the sewerage activity.

New tariff structure for the water purification levy from 2016 onward

From 2016 onward, a uniform tariff structure for the water bill and the sanitation contribution has applied.

For consumption, two tariffs are applied: a basic tariff for the consumption limited to 30 m³ per residential unit and increased by 30 euro per person domiciled there. For consumption exceeding that amount ('comfort tariff') the tariff is doubled. A fixed component with family correction was introduced.

The maximum tariffs 2017 are:

- Standing charge per household : 30 euro/year min. 6 euro per inhabitant (max. 5)
- Basic tariff : 1.3264 euro/m³ (+ 1.8 % compared with 2016)
- Comfort tariff : 2.6528 euro/m³ (+ 1.8 % compared with 2016)

In all municipalities which are affiliated to Infrax 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 € 2.2738/m³ and the comfort tariff € 4.5477/m³.

Tax rules concerning private water drainage

Whether grants are obtained or not for sewerage projects is linked by the Flemish Environment Agency (VMM) to disconnection on private land. Whether or not the VMM grant is paid depends on whether the residents have disconnected their home correctly, and therefore have a positive test certificate.

Since Infrax currently still has a credit for grants of 6 to 7 million euro, it is necessary to have a carrot-and-stick approach to encourage the residents to comply with the disconnections that are necessary and thus to be able to collect the grants. Therefore, Infrax has developed tax rules in cooperation with the local authorities. The Agentschap Binnenlands Bestuur (Home Affairs Government Agency), Vlario and VVSG have since agreed to these rules. The local authorities are requested to approve these rules in their council.

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.

Infrax joined Synductis in 2017 for local authority areas where we are only the sewerage system operator, and only with regard to the planning aspect.

Financing of distribution system operators via Infrax

The financing of the investment expenditure of the affiliated system operators and of their working capital happens via Infrax. Infrax can take out loans for this purpose, take out credit lines, issue treasury certificates and bonds.

Infrax has also launched an EMTN (Euro Medium Term Note) programme for issue of bonds for a total amount of 500 million euro. A first tranche of 250 million was issued in 2013 (duration 10 years) and a second tranche was issued in 2014 (duration 15 years).

Infrax's balance sheet was significantly influenced by the financing activity that Infrax carries out. On 31 December 2017 the long-term financial liabilities amounted to € 543,501,956 (including particularly the above-mentioned EMTN programme), the current portion of debts payable in more than one year were € 3,500,000 and the financial debts payable within one year are € 25,000,000. This financing is used to a large extent to finance the affiliated system operators' sustainability. Infrax has long term receivables amounting to € 450,000,000 with these distribution system operators. The Board of Directors is of the opinion that there is no difference regarding the repayment capacity of the distribution system operators.

The distribution system operators guarantee the bonds and related debt instruments. The table below shows a summary of the guarantees

		Infrax Limburg	Infrax West	Iveg	PBE	Riobra
		57 %	19 %	12 %	8 %	4 %
	Amount	Guarantee	Guarantee	Guarantee	Guarantee	Guarantee
Loan	70,000,000	39,900,000	13,300,000	8,400,000	5,600,000	2,800,000
Credit lines	200,000,000	114,000,000	38,000,000	24,000,000	16,000,000	8,000,000
Treasury programme	200,000,000	114,000,000	38,000,000	24,000,000	16,000,000	8,000,000
EMTN programme	500,000,000	285,000,000	95,000,000	60,000,000	40,000,000	20,000,000
Total	970,000,000	552,900,000	184,000,000	116,400,000	77,600,000	38,800,000

Infrax makes use of financial instruments within the meaning of Article 96, 8° of the Companies Code. To hedge its long-term loans, in 2011 an interest rate swap was taken out on a 70 million euro loan with a 20-year duration until 2031.

Rating news

A rating is a reasoned judgement of the creditworthiness of a bond issuer and is an important criterion that institutional investors use. A good rating offers more flexibility for financing and reinforces a company's image as a reliable financial partner. Furthermore, VREG bases its calculations on companies with an A-rating when determining the 'permitted' financing costs.

Infrax applied for a rating from rating agency Fitch from 2014 onward. Infrax was then given the rating 'A stable outlook'.

On 13 December 2016 the Fitch rating agency confirmed the rating to Infrax. This qualitative rating is a reflection of the sound financial foundations on the one hand and stakeholders' trust in the group's strategy.

Fitch put Infrax on 'Rating Watch Negative' on 30 October 2017. This means that Fitch announced that there could possibly be a change in the rating, if the case arose, a potential downgrading.

The reasons according to Fitch for this Watch Negative (WN) are as follows:

- Unclear credit profile for the Infrax/Eandis merger;
- Possible pressure on liquidity if the bond holders do not agreed to changes in the prospectus (necessary for the transfer of the bonds from Infrax to Fluvius);
- Possible risk of change in EMTN guarantee structure, for example in the event of a merger of an Infrax DSO and an Eandis DSO.

According to the current prospectus of the EMTN programme, a merger of Infrax is an 'event of default', which implies that the bond holders could demand an immediate reimbursement of the loan. The prospectus must therefore be amended and to do that, the approval of the bond holders is required. The general meeting of bond holders is therefore planned for the spring of 2018.

Infrax has entered dialogue with Fitch to provide as much information as possible so that Fitch can put the forthcoming merger operation into the correct perspective.

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 of the capital and the return. In Branch 23, no guarantee is given. The funds have been set aside to finance the anticipated rise in the basic pension and the 'accountability contributions'.

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 were abolished and replaced by a general preferential right, together with all ordinary and preferential creditors. This specific preferential right was 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 2017, 93.5% of the funds managed were under Branchy 23.

Pension reserves	Infrax Limburg	Infrax West	Iveg	PBE	Total
Per 31/12/2016	222,673,705	171,806,721	41,972,581	31,436,931	467,889,938
Per 31/12/2017	260,947,882	181,349,599	44,640,936	33,078,592.	520,017,009

Legal framework

In 2017, the Infrax DSOs were involved in the following proceedings:

1. **Zonstraal/VREG:** On 1 July 2014, the powers to decide tariffs for electricity and gas distribution networks was transferred from the federal level to the regions. To implement its new tariff powers, the Flemish energy regulator VREG adopted a tariff methodology for the regulatory period 2015-2016 on 30 September 2014. Zonstraal, a sector federation for solar energy, together with two individuals (who state that they are owners of solar panels) initiated an appeal for suspension and setting aside of the same tariff methodology before the Brussels Appeal Court. Because VREG was of the opinion that the Supreme Administrative Court had sole jurisdiction to hear appeals against VREG decisions, the plaintiffs then initiated an appeal (for suspension and setting-aside) against the same tariff methodology with the Supreme Administrative Court. The four distribution system operators of the Infrax umbrella organisation Iveg, Infrax West, Inter-energa and the PBE (the 'Infrax-DSOs') have entered the proceedings before the Supreme Administrative Court as a third party supporting VREG.

The Court of Appeal ruled in (the reasoning of) an interim judgement that they were competent, but adjourned the treatment of the case while awaiting a definitive judgement from the Supreme Administrative Court, in order to avoid contradictory judgements.

In a judgement of 1 October 2015, the Supreme Administrative Court dismissed the suspension application due to lack of urgency, without ruling on its competence. The plaintiffs then sought the continuation of the action.

On 22 November 2017, the relevant chamber of the Brussels Appeal Court (now known as the 'Markets Court') handed down a judgement in this case, dismissing the Zonstraal application. On learning that, Zonstraal also waived the dispute pending before the Council of State.

2. **Proximus initiation of a 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.

With reference to the take-over of the cable television customers and the granting of a long-term lease on the cable network by Telenet, Belgacom, now Proximus, filed an application with the Court of First Instance to annul the contracts and seeking compensation. This claim was dismissed in First Instance (judgement of 6/4/2009). Proximus then lodged an appeal with the Antwerp Court of Appeal.

The Proximus claim concerned the handing-over of all the documents with regard to the agreement between Telenet, Interkabel and the cable companies. At the same time, it asked 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 therefore decided on grounds of prudence to set aside a provision that relates to that contractual settlement. The Board of Directors is convinced that the risks and the attendant uncertainties, taking account of all factors known at present, are the subject of adequate provisions in Interkabel and/or the annual accounts of the DSOs concerned. The so-called Telenet agreements provide that any compensation above 20 million euro will be payable by Telenet.

In a judgement of 18 December 2017, the Court of Appeal dismissed Proximus's claim. Proximus can still make an appeal in cassation.

Internal control environment

Infrax's internal control environment is based on the COSO model for internal control, where the five basic components, 'control environment', 'risk assessment', 'control activities', 'information and communication' and 'monitoring activities' is explained briefly below.

- Control environment: The control environment forms the basis for carrying out the internal controls and creates the framework in which everyone carries out his or her activities.
- Risk assessment: Risk assessment is the process of understanding and managing risks, and contributes to achieving the objectives set by the organisation.
- Control activities: Control activities help to achieve Infrax's objectives and are implemented at every level of the organisation. Control activities give specific information, can prevent or

detect certain errors, and are automatic or manual in nature. Effective performance of the controls reduces the inherent risk of errors in a process to an acceptable level that Infrax wants ('risk appetite').

- Information and communication: Information and communication concerns both internal and external communication.
- Monitoring activities: Monitoring activities comprise the supervisory activities and the evaluation of the people, where the expectation is tested against the reality and where the results of that testing are reported to the correct body (e.g. management committee, Board of Directors, etc.).

Investments

The Infrax group made investments worth a total of 257.8 million euro gross in 2017. That is 46.2 million euro more than in 2016.

Investments per activities in millions of euro					
Electricity	Natural gas	Sewerage	KTV	Miscellaneous	Total
86.0 (+3.8)	36.6 (+0.4)	63.8 (+20.4)	54.1 (+15.9)	17.3 (+5.7)	257.8 (+46.2)

(x): increase or decrease compared with 2016

Branch offices

The company has no branch offices.

Result

Infrax cvba operates as a 'cost and revenues centre'. Infrax cvba provides for operations in the name and on behalf of its shareholders. The result is that the costs and revenues that Infrax realises on behalf of its members are offset via the balance sheet. Only the costs of Infrax 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 Infrax cvba. These costs are also cross charged to the DSOs.

Infrax's profit is 154.014 euro. There is no financial profit nor extraordinary profit.

It will be proposed at the General Meeting to add an amount of 7.701 euros to the legal reserves, and the balance, 146.313 euros, to be paid out to the shareholders as dividends.

Important events after the closure of the 2017 financial statements

As mentioned in the report, a merger is planned of Infrax and Eandis S.O. and a general meeting of bond holder is planned concerning the amendment of the prospectus. There are no other important events to report that have occurred since the closure of the annual financial statements that could have an impact on the accounts.

Comments and notes to the balance sheet and the statement of operating income & expenses for 2017

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