Report by the Board of Infrax cvba on the financial year 2012 to the

General Assembly of shareholders of 27 March 2013

We hereby report on the activities of Infrax cvba during the past financial year and submit the annual accounts for 2012 for approval.

Infrax cvba was founded on 7 July 2006, and now has five members, Infrax Limburg, Infrax West, Iveg, PBE en Riobra.

The company is responsible, subject to the policy lines as laid down by its partners, for operating, maintaining and developing electricity, natural gas, cable TV and communications and sewerage networks.

Amendments and additions to our partners

Our partner Iveg acquired AGEM (Merksplas autonomous council electricity network operating company) on 1 January 2012.

Our partner Infrax West took over the electricity operations and staff of Etiz (Izegem autonomous municipal operations) as of 1 January 2012. ETIZ remains the owner of all distribution installations.

Rotselaar and Ingelmunster councils put their sewerage activities under Riobra and Infrax West respectively.

Infrax is now involved in 126 council areas.

Excellent programme

In response to a rapidly changing energy landscape, the Board of Infrax cvba approved a strategic plan entitled "Excellent" at the end of 2011".

With this plan, Infrax cvba aims to profile itself as' best in class''. We aim to offer our councils and customers the best possible service level at the best possible prices, focusing on the customer and operational excellence while at the same time achieving our cost targets.

The Excellent programme is fully up and running, with around ten projects.

To give some examples;

- Merging customer services and operations, aimed at becoming a more customer-oriented organisation, everyone working the same way at Infrax, strengthening the local presence of managers and making the organisation as flexible as possible.
- Reorganising logistics services centralising warehousing activities with an external logistics partner.
- Introducing state of the art asset management principles.
- Instigating numerous transformation projects across all departments, introducing the lean principles, aiming all our staff at creating added value in processes and eliminating waste.

The Excellent programme runs until the end of 2014.

Smart meters

Infrax is working flat out to meet the new challenges facing the electricity network: developing smart networks with smart meters .

As far as smart meters were concerned, following a successful proof of concept (project to establish if they were technically viable), a pilot project was started, installing 10,000 smart meters in a number of test areas. VREG's proposed start deadline of 1 October 2012 was met on time.

Infra-X-net

The agreement with Telenet provides that the cable infrastructure remains the property of the DSOs and that Infrax may therefore offer cable municipalities certain services on the basis of that infrastructure.

With this in mind, Infrax has decided to expand the following services to the councils via the cable network:

- Infra-LAN network: this connects different council/OCMW buildings to their own computer network;
- Infra-TEL network: this connects telephony and telephone exchanges from different buildings to the council's headquarters. The headquarters are then connected to the telecom operator shared with Infrax via the cable network;
- Infra-INTER network: provides broadband Internet access from various buildings via the cable network

  This new service has been very successful commercially: 77 councils had signed up by the end of 2012, a success rate of 85%.

Sewerage

Infrax operates sewerage activities in 83 council areas, making it the largest sewerage operator in Flanders.

€ 82.4 m was invested in the sewerage system in 2012.

The regulator VMM states that Infrax's 83 sewerage councils will have to invest another € 1.48 bn by 2027 at the latest, an average of approx. € 99 m p.a. Flanders' current subsidy policy and rationalisation grants are clearly not enough to maintain this rate. This implies reducing capital investment required (e.g. maintaining mixed networks, spreading further over time, etc.) and generating additional income (rationalisation grants, alternative income etc.).

Pension scheme, joining RSZPPO

Until now, most DSOs associated with Infrax cvba had their own pension funds (capitalisation fund). Infrax West, decided to join the RSZPPO (repartition system) as of 1 January 2012. Ethias remains the financial and administrative manager. Joining mutualises the basic pension across many public authorities and is rather beneficial for the Infrax DSOs which have joined. The larger part of current pensions are acquired by RSZPPO and the future pensions born by it anyway. The employers' contributions due will now follow the basic contributions set by RSZPPO plus a responsibilising contribution. The existing reserves in the DSOs' own pension funds will remain their property, and will be applied to funding the expected increase in basic contributions and responsibilising contribution.

Freezing electricity and natural gas network tariffs in 2013 and 2014

The Federal government agreement from the end of 2011 proposed that power over distribution network tariffs be moved from Federal to community level. In expectation of this, and at the request of the community regulators, CREG decided to extend the 2012 tariffs to 2013 and 2014 in March 2012.

The amended electricity law of January 2012, implementing the third European energy directive in Belgian law, required the CREG to consult the stakeholders and then develop a new tariff methodology. Infrax asked CREG to freeze the tariff methodology in view of the impending transfer of powers.

Rise of solar power installations

The number of solar power installations has increased spectacularly since the second half of 2011: we counted a total of 66,963 such installations in Infrax's area as at 31.12.2012, with a total capacity of 63.890 kW, up 124% on the same time last year. Some 31% of all Flemish solar power installations are in Infrax's area, where Infrax normally has around 22% of electricity marketshare, which means, there are half as many solar power installations proportionally than in other areas.

The rise of solar power installations means an increase in non-controllable costs

The unforeseen increase in solar power installations is causing major shortfalls on non-controllable costs in electricity: the buy-up obligation means network operators must buy up more Green energy Production Certificates (GPC) than was foreseen when drawing up budgets on which today's tariffs are based. More people generating their own electricity also means that network operators are transporting less energy, so incomes fall.

Non-controllable costs are those over which network operators have no direct control. The difference between estimated and actual costs is taken as a receivable or liability and hence netted in a subsequent tariff period. The difference between actual sales volumes and volumes estimated in budgets is also netted in a subsequent tariff period. These differences lead to an increase or reduction in future tariffs.

The table below shows the shortfalls for electricity, due mainly to the rising number of solar power installations. The partial solidarization of GPC costs is included in the accounts in accordance with the solidarization system which Flemish regulator VREG set up in 2009.

There are considerable surpluses in natural gas, on the other hand, which does not have to cope with public service obligations.

Net operating differences	**2008-2011**	**2012**	**2008-2012**
Electricity	-78,186,263	-65,403,412	-143,589,675
Natural gas	+44,120,499	+6,134,932	+50,255,430
Total	**-34,065,765**	**-59,268,480**	**-93,334,245**

(- = Shortfall, so tariffs in next period will rise, += Surplus, so tariffs in next period will fall)

These differences mean electricity tariffs will rise in future, while gas tariffs will fall.

Provisions

As was stated above, network operators record the shortfalls on non-controllable electricity costs (including shortfalls on receipts) as a claim on networkcustomers, particularly by increasing tariffs in the future. This claim is recorded as accrued income in the balance sheet ('regulatory assets') and increases turnover on the year.

Provisions were created to compensate for regulatory assets until 2011. The valuation method changed in 2012 such that no further provisions were made, whereby Infrax' DSOs has fallen in line with prevailing market accounting practices in the regulated sector. The law allows shortfalls on non-controllable costs to be recovered from customers, providing the regulator approves, in any case.

Had the valuation rules not been changed, an additional € 39.1 m of provisions would have had to have been made in 2012, reducing net profit by the same amount. The electricity provisions created to compensate for regulatory assets stood at € 57.7 m as at 31 December 2012. The Board is convinced that the provisions made cover the potential risk of not recovering these shortfalls completely adequately.

Controllable costs

Controllable costs are those network operators can control directly. The difference between estimated (budgeted) costs and actual controllable costs is accounted for in the profit and loss accounts of the network operators.

The Infrax group realised surpluses on controllable costs on both electricity and natural gas.

Net controllable costs	**2008-2011**	**2012**	**2008-2012**
Electricity	+48,411,767	+15,390,039	+63,801,806
Natural gas	+18,496,512	+7,186,446	+26,682,958
Total	**+66,908,278**	**+22,576,485**	**+89,484,764**

(- = Shortfall, so tariffs in next period will rise, += Surplus, so tariffs in next period will fall)

Valuing Green energy Certificates

There was a surplus of certificates for both GPC and CHP (Combined Heat Production) in 2012, so their market price fell and network operators could only sell a limited proportion of those they held.

By the end of 2012, stocks of GPC and CHP stood at € 7.25 m. GPCs are valued at € 93 each, as against € 98.57 at the end of 2011, and CHPs at € 27, as against € 30.91. Stocks of certificates are recorded as deferred charges in the statutory annual accounts.

	2011		**2012**		***Increase***	
	Quantity	Value	Quantity	Value	*Quantity*	*Value*
GPC	378,879	37,346,103	725,871	67,506,003	*346,992*	*30,159,900*
CHP	23,330	721,130	194,355	5,247,585	*171,025*	*4,526,455*
Total	**402,209**	**38,067,233**	**920,226**	**72,753,588**	***518,017***	***34,686,355***

When it reformed the certificates in August 2012, the Flemish government asked network operators to 'bank' a number of certificates for some years, that is, not to offer them on the market to create supply and demand. Infrax banked 478,885 GPCs and 70,654 CHPs. The Flemish government guarantees the certificates banked (€ 93 per GP certificate banked and € 27 per CHP, or € 29.3 m in all) and will cover the funding costs. With the non-banked certificates, there may be a risk that they cannot be sold on the market at the price of € 93 and 27 respectively, which may result in an additional shortfall on non-controllable costs for the network managers.

Legal matters

Infrax DSOs were involved in a number of judicial procedures over distribution network tariffs in 2012.

Tariff adjustment May 2011: In April 2011, CREG adjusted Inter-energa's and Iveg's distribution tariffs as of 1 May 2011 due to the unforeseen increase in the cost of buying Green energy Production Certificates and rational use of energy costs (REG). Two individuals appealed against these decisions to the Court of Appeal, Brussels. In June 2012, the Court found the tariff adjustment was justified but CREG had based it on the wrong articles in law. It did not overturn CREG's decisions, however, stating in any case that it would be reasonable to maintain the consequences of the decisions while awaiting new (replacement) decisions based on the correct articles in law. The Court found on the other hand that the Electricity law did not allow it to maintain the consequences of decisions to be overturned, although the Council of State did. The Court of Appeal therefore referred the matter to the Constitutional Court, asking if this was not discriminatory. Proceedings in the Constitutional Court are still impending.

Boonen and others v. Electrabel: Mr. Boonen and more than 1600 others have applied to the justices of the peace of Deurne to recover the distribution charges they have paid since 2009 and for an order not to charge distribution charges in future. They are suing Electrabel, which has summonsed just about all Belgian distribution network operators in third-party actions. Their action is based on the Constitutional Court's judgment of 31 May 2011 which overturned the effects of some articles of the tariff legislation in law. The plaintiffs claim overturning them removes any basis for charging distribution charges in law. Both the Belgian government and CREG are involved in the case, pleadings for which have been set down for the end of 2013.

Law of 8 January 2012: This law implements the aspects of the Third European Electricity and Gas Directive which come under the remit of the Federal government in Belgian law. CREG has appealed to the Constitutional Court to declare a large number of provisions of the law null and void. Two of Infrax's distribution network managers have intervened in the case, partly in favour of CREG and partly in favour of the Law. The matter is still impending before the Constitutional Court.

There were two developments in 2013 which should be mentioned for the sake of completeness:

Network contribution: CREG approved a 'network contribution' for Infrax's distribution network managers amongst others on 6 December 2012, which applies to decentralised production systems with an installed capacity of 10 kW or less with a reverse counting meter. A number of parties, including Solar Power Flanders, appealed against these decisions to the Brussels Court of Appeal in January 2013; and Infrax's DSOs have intervened in that case. The case has been set down for pleadings in June 2013.

Transmission tariffs: The Brussels Court of Appeal overturned CREG's decision approving Elia's tariffs for 2012-2015 on 6 February 2013. None of Infrax's DSOs were party to the proceedings, but they affect the whole electricity market.

Investment

The Infrax group invested a total of € 281.4 m gross in 2012.

Investment per activity in € m

Electricity	Natural gas	Sewerage	Cable TV	Other	Total
96.7	49.0	82.4	30.5	22.8	281.4

Long-term loans

Both the long-term investments and the rise of solar power installations are putting a burden on the group's liquidity, which is why Infrax issued an invitation to tender for a total of € 150 m in 2012. The Board approved this as follows:

Infrax cvba:	€ 40 m
Inter-energa :	€ 40 m
Infrax West:	€ 30 m
Inter-aqua:	€ 20 m
Iveg :	€ 10 m
PBE:	€ 10 m

The Board also decided to increase the takeup capacity of the treasury certificate programme from € 100 m to € 200 m, extend the term from five years to open-ended and open the programme to other banks. All the partners agreed to this and agreed to act as guarantors.

Financial instruments

Infrax uses financial instruments as stated in Article 96,8 of the Companies Code. The company concluded an IRS to cover its long-term loans (completely) for € 70 m up to 2031 and € 40 m up to 2015. For more details see the notes to the statutory annual accounts.

Profits

Infrax cvba operates as a 'cost and income centre'. Infrax handles operations for and on behalf of its partners. That means the income and costs Infrax makes on behalf of its shareholders are netted via the balance sheet. The profit and loss account only shows Infrax's own costs: these are mainly our own personnel costs, head office and ICT costs. The costs of the pilot 'smart meters' project are also booked within Infrax cvba.

Infrax made a profit of € 178,802. There were no financial or extraordinary profits

It is proposed to the General Meeting that the sum of € 8,940.10 be transferred to the statutory reserves and the balance of € 169,861.90 be distributed as dividends to the partners.

Significant events since the year end 2012

There have not been any significant events since the year end which might affect the accounts.

Notes to the balance sheet and profit and loss account 2012

We would refer to the notes and annexes to the statutory annual accounts.

The Board proposes that the general meeting of the shareholders

a) approve the annual accounts and appropriation of the profits they contain;

b) Exonerate the directors and auditors from liability in the performance of their duties.

The Board would like to thank the staff for their commitment and dedication and the shareholders for their strong continuing trust.

(signature)

Paul De fauw

CEO