

Report of the Board of Directors of Infrac cvba for the financial year 2014 to the General Meeting of March 25, 2015

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 2014 for approval.

Infrac cvba has five partners: Infrac Limburg, Infrac West, Iveg, PBE and Riobra.

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.

New CEO

With effect from July 1, 2014, the Board of Directors of Infrac appointed Mr Frank Vanbrabant as CEO of Infrac, succeeding Paul De fauw, who has reached the age of retirement. Mr Frank Vanbrabant previously held the post of Director of operations and customer service.

As a result, the management committee has been rearranged. The management of operations and customer service has been divided as follows:
network operations management and customer service & purchasing management.

Frank Vanbrabant is also responsible for strategy, regulation, PMO and strategic communication.

The renewed management committee looks like this as from July 1, 2014:

- | | |
|---|----------------------------------|
| – CEO | Frank Vanbrabant |
| – Director of network exploitation | Herman Remmerie |
| – Director of customer service and purchasing | Tom Ceuppens (from 1 March 2015) |
| – Director of grid operations | Paul Coomans |
| – Director of finance | Chris Buyse |
| – Director of personnel | Eric Beliën |
| – Director of ICT | Filip Van Rompaey |
| – Director of legal affairs,
communication & administrative bodies | Kaat Debruyne |

Future network operator Flanders

In 2013, a debate was held with various stakeholders on the future organisation of grid management in Flanders.

This resulted in the signing of an agreement in 2014 between Infrac and Eandis.

Both operating companies agreed not to merge. An eventual merger of the distribution system operators must remain an autonomous decision by the distribution system operators within each operating company. Both companies are also in agreement with a stand-still until the end of 2019. Subject to agreements of all parties concerned, and not least of the municipalities themselves, adjustments might be made to the distribution zones. A plea was made for a future single tariff over the whole of Flanders. Finally, both companies stated that there must be complete solidarity with regard to the public service obligations.

Transfer of responsibility with regard to the distribution network prices for electricity and natural gas

As a result of the sixth State reform, the responsibility for the prices of gas and electricity distribution will be transferred from the federal government to the regions on 1 July 2014.

In implementation of its new tasks, the VREG approved a new pricing methodology on September 30, 2014, based on income regulation.

The new method provides for 2 budgets: an exogenous and an endogenous (non-exogenous) budget. Exogenous costs are costs over which the grid operator has no influence. These costs are listed exhaustively and consist of: REG-premiums, green power and CHP certificates, free kWh and certain pension endowments. The exogenous costs are passed through to the customers. All other costs (operating costs, depreciation, financing costs, ...) are 'endogenous'. From now on the VREG determines the endogenous budget itself. It bases itself on the past for this purpose and calculates the trend of the past through to the future.

The VREG has established the remuneration for its own and borrowed capital for 2015 and 2016 as follows: the shareholders' equity - in amount limited to 45% of the Regulated Asset Base (RAB) - will be remunerated at 5.7 %. The borrowed capital - calculated on 55 % of RAB - and the net working capital will be remunerated at 4.1%. The prefinancing of the unsold GECs and CHPCs and the regulatory shortfalls on the exogenous costs will be remunerated at the official interest rate applicable in civil and commercial affairs - 2.5 %.

New network prices for electricity and natural gas from January 1, 2015

On the basis of this new pricing methodology, the VREG approved the network tariffs for electricity and natural gas for 2015 on December 18, 2014. The network tariffs are retrospectively cost-covering from January 1, 2015.

The VREG has also decided to offset the deficits and surpluses accumulated in the period 2008-2009 against the rates in 2015 and 2016. A ruling by the Court of Appeal of Brussels is awaited for the deficits and surpluses accumulated in the period 2010-2014 . Since it was unclear which regulator - the CREG or the VREG - had to determine these deficits and surpluses, Infrac has asked the Court of Appeal to provide a definite answer.

For Infrax as a whole, the income allowed in 2015 in Flanders for the distribution of electricity amounts to 428 million Euro (this is an increase of 84 million compared with 2013), and for the distribution of natural gas 66.5 million Euro (decrease of 21 million). In addition, account will be taken in the determination of the tariffs for electricity with a sharp fall in the quantities of kWh transported .

This will increase the network tariffs for electricity with Infrax by an average of 41 % in 2015 (expressed in Euro/kWh). For the production facilities connected to a 'reversing counter' ('prosumenten') a net contribution of 80 Euro/kW (differing per DNB) is provided as compensation for the decreased energy. The network tariffs for natural gas charged by Infrax will fall in 2015 on average by 17%. The rise or fall will be different for each distribution system operator.

Non-manageable deficits and surpluses as per December 31, 2014

The regulatory framework according to the (now abolished) Royal Decree of 2008 on multi-year tariff methodology applies until the end of 2014. This RD provided for a distinction between 'manageable' and 'non-manageable' costs. Non-manageable costs are more broadly defined here, and also include for example the depreciation and financing costs.

The difference between the estimated and the actual incurred non-manageable costs is considered as a liability or receivable towards the customer and is therefore settled via the tariffs for a following regulatory period. The difference between the estimated and actual volumes of transported energy is also settled via the tariffs for a following regulatory period. These differences result in an increase or a decrease in the future tariffs.

The unexpected increase in PV installations has led to important shortages in the non-manageable budget for the electricity business. Under the buying-up commitment the grid operators must buy more Green Power Certificates than provided for when the budgets were being drawn up that were the basis of the tariffs applied in 2014.

The table below shows the deficits on the non-manageable costs for electricity. These are mainly the result of the increase in the number of PV installations. For natural gas - where we do not have to deal with rising public service obligations - there are, however, some quite significant surpluses.

Balances of operating differences	2008-2009	2010-2013	2014	2010-2014
Electricity	-20,599,530	-211,706,159	-71,676,026	-283,382,185
Natural gas	+21,318,595	+39,895,553	-12,185,343	+27,710,210
Total	+719,065	-171,810,606	-83,861,369	-255,671,975

(-: deficit, tariff-raising in following regulatory period; +: surplus, tariff-lowering in following regulatory period)

The above-mentioned differences result in a future increase in the electricity tariffs and a reduction in the natural gas tariffs.

The amounts shown in the column headed ' 2008-2009' ' are deficits or surpluses to be offset against the tariffs for 2015 and 2016. On the amounts relating to the years 2010 to -2014, decisions must still be taken with regard to the offset in future tariffs.

It should however be mentioned that, as a result of the abolition of the RD on multi-year tariff methodology in early 2012, the legislative framework has become unclear and thus also the manner and timing of the offset in the tariffs of the operating differences for the period 2010-2014.

Provisions

As already mentioned, the deficits on the non-manageable costs for electricity (including volume shortfalls) are booked by the grid operators as a receivable from the customers connected to the grid (in particular by a future tariff rise). This receivable is booked as an accrued income in the balance sheet ('regulatory assets') and increases the turnover for the year.

Until 2012, provisions were made to compensate for the regulatory assets. With regard to the Flemish coalition agreement for 2014-2019, which says that the balances from the past must be eliminated in the short term and with regard to the decision of the VREG to offset the balances from 2008 and 2009 in the tariffs for 2015 and 2016, it can reasonably be assumed that these provisions have become irrelevant. The provisions created in the past to compensate for the regulatory assets amount to 57.7 million Euros for electricity and 1.3 million Euros for natural gas and will be withdrawn in the financial year 2014, and booked as exceptional income for the respective DNBs where the provisions were created at the time.

Valuation of green electricity certificates (GECs) and combined heating & power certificates (CHPCs)

In 2014 there was once again a surplus of Green Power Certificates and Combined Heat and Power Production certificates in Flanders, such that only a limited proportion of the certificates could be sold by the grid operators.

At the end of 2014, the stock of GPC and CHP certificates represented 210,1 million euros for the Infrax group. The GPC were valued at 93 euros per banked certificate and at 88 euros for the non-banked certificates. For the CHP certificates that was respectively 27 and 20 euros. The stock of certificates is booked as a deferred charge in the balance sheet.

Stock	31/12/2013		31/12/2014		Increase	
	No.	Value	No.	Value	No.	Value
GEC	1,397,384	129,956,712	2,127,470	189,548,550	730,086	59,591,838
CHPC	606,818	13,167,102	985,346	20,539,045	378,528	7,371,943
Total	2,004,202	143,123,814	3,112,816	210,087,595	1,108,614	66,963,781

By its decision of 10 January 2014, the Flemish government stipulated that the grid operators must immobilise ("bank") 1.5 million certificates for a number of years, i.e. not offer them on the market in order to rectify supply and demand. The banking for Infrax involves 466,238 GPC and 118,875 CHPC. The Flemish government guarantees the banked certificates (93 euros per banked GPC and 27 euros per banked CHP certificate), or in total 46.6 million euros and has compensated the financing costs for 2014. For the non-banked certificates there is possibly a risk that they will not be able to be sold on the market in the future at the price of 88 euros or 20 euros respectively, which could mean an additional deficit in the non-manageable costs of the grid operators. The stock value of the non-banked certificates is approximately 163.5 million Euros.

Infra-X-net

The agreement with Telenet provides that the cable infrastructure will remain the property of the DSOs¹ and that Infrac may provide certain services on this infrastructure to the cable municipalities.

In this context Infrac 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 Infrac 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 2014, 77 municipalities and the province of Limburg signed up for these services, which signifies a success rate of 85 % for the municipalities connected to the cable network.

Sewerage

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

In 2014 EUR 51 million were invested in the sewage system. This is 7 million less than in 2013 and 26 million less than in 2012. This drop is due to the reduced investment in road works by the municipalities and points to the budgetary constraints that many municipalities are struggling with.

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.

In her circular of April 2014 minister Joke Schauvliege stated that the municipal sewage revenues may only be used for (new) investment and maintenance expenditure on sewerage. The term 'investments' is also taken to mean the restoration of the superstructure or the construction of a new superstructure.

¹ Distribution System Operator

The Boards of Directors of Inter-aqua, Riobra, Infrac West and Iveg are meeting that demand and will therefore no longer pay dividends from the sewerage business. Any profits will be reserved and kept available in sewerage funds.

The following activities can be financed 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.

Joint procurement by municipalities

At the request of a number of municipalities, Infrac has decided to offer the municipalities possibilities for 'joint procurement'. Infrac will facilitate 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 Infrac and the municipalities.

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

- Roadside weed control + monitoring (zero measurement)
- Electronic luncheon vouchers
- Payment terminals
- External service for health and safety at work ("EDPBW")
- Medical inspections.

Relocation to the Zenith-building

Increasing activities meant that the available space in the head office at Koningstraat 55 had become too small. After a comparative search it was decided to move both the administrative and the registered office of Infrac cvba to the Zenith building, Koning Albertlaan 37, Brussels. The new offices were in use on September 1, 2014.

Shutdown plan

Belgium is faced with a declining production capacity. The result is that in the event of persistent freezing temperatures there is an increasing likelihood of a scarcity of energy. The federal government has developed a roadmap that will be applied to energy scarcity. This plan successively consists of awareness-raising measures, bans and, finally, the shutdown plan. The duration of the shutdown is dependent on the imbalance between production and consumption. The federal and provincial crisis management units are responsible for communication.

Infrax has no leading role in this plan, but supports the assignments that come from the government or from Elia. Infrax will be involved with restarting the energy supply in the regions concerned. Infrax has adapted its internal procedures to take appropriate action in such a case.

Legal framework

In 2014 the Infrax DNBs were involved in the following procedures:

1. Balances for 2010-2013: In this affair, the Infrax DNBs entered an appeal at the Brussels Court of Appeal against the refusal by the CREG to (1) establish a pricing methodology (even if only provisional) and (2) take decisions about their balances for the years 2010-2012. The Infrax DSOs are asking the Court to annul the refusals of the CREG and to say that it is up to the Regulator to make decisions about the balances for the years 2010-2012 and also for 2013. Furthermore, the Infrax DSOs, with regard to the transfer of authority for distribution tariffs to the regions on July 1, 2014, are asking the Court to say which regulator is empowered to take decisions on those balances, namely the CREG or the VREG. The case was argued and taken under consideration on January 28, 2015. The ruling is expected in the coming months.
2. Boonen and others v. 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.
3. Booms and Asman v. CREG: In April 2011 the CREG had adjusted the distribution tariffs of Inter-energa 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.

4. Solidarisation [sic] mechanism: The 'solidarisation mechanism' was introduced in the Flemish Region partly to equalise the additional cost of the buying-up commitment of Green Power Certificates, which is very different from grid operator to grid operator. The VREG has published successive announcements in which they explain the way in which the mechanism must be applied for it. Infrac West and the PBE launched an appeal against one of those notices for the suspension and annulment by the Council of State. The suspension appeal was rejected by the Council of State on November 28, 2013. Subsequently, Infrac West and the PBE withdrew their claim for annulment. The Council of State confirmed the withdrawal in its judgement of February 13, 2014.

Rating A with stable outlook

On October 16, 2014 the rating agency Fitch granted Infrac an A-flat-rating with stable outlook. Thanks to the strong link with the public shareholders and the Flemish government there was an uplift of 1 'notch': of 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 creditworthiness of an issuer of bonds and is an important criterion that institutional investors use.

The main reason why Infrac asked for a rating is that upon the issuance of bonds in 2013 it appeared that a rating has a significant impact on the interest rate. 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 'permitted' financing costs.

EMTN programme

With a view to financing the investment expenditure in electricity, TV distribution, natural gas and sewerage networks and the financing of the working capital, Infrac cvba started an EMTN programme in 2013 for the issue of bonds for a total amount of 500,000,000 spread over 4 years.

This program is part of a diversification of financing sources, in addition to the existing conventional financing through bank loans, short-term credit lines and issuing commercial papers.

The programme, approved by the FSMA on October 1, 2013, is fully guaranteed by the partners of Infrac cvba. The first issue was in 2013, amounting to EUR 250 million.

After obtaining the rating in October 2014, Infrac released the second issue of bonds. The updated prospectus was approved by the FSMA on October 22, 2014. The issue was very successful now as well. EUR 250 million in bonds were issued for a duration of 15 years at an interest rate of 2.625 %. Because of the rating there was more international interest than during the first issue in 2013.

In addition to this EMTN programme Infrac also has a commercial papers programme of up to EUR 200 million.

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 (IRS) on a loan of EUR 70 million was concluded in

2011 with a duration of 20 years till 2031. An IRS on a loan of EUR 40 million was concluded in 2012 with a duration of 3 years till 2015.

Investments

The Infrac group made investments in 2014 worth a total of EUR 218.8 million gross. This is 31.4 million less than in 2013.

Investments per activity in millions of Euro					
Electricity	Natural gas	Sewerage	CTV	Miscellaneous	Total
82.5	40.9	51.3	32.2	11.9	218.8
(-3.6)	(-8.9)	(-7.0)	(-5.6)	(-6.3)	(-31.4)

Corporate tax

The Programme Law of December 19, 2014, published in the Moniteur Belge on December 29, 2014 abolished Articles 180, 1° and 220, 2° of the Income Tax Code, whereby the inter-municipal associations were unconditionally and explicitly exempted from corporate tax and were subject to the tax on legal entities. The result of this is that a factual assessment will determine whether the inter-municipal associations are subject either to corporate income tax or the tax on legal entities. In order to obtain certainty on this matter, ruling procedures were initiated at the beginning of 2015 .

Furthermore, the transitional provisions allow for an important latent tax burden on the reserves created in the past and provisions in the event of their future withdrawal. We estimate this latent tax burden at 500 million euros for the group as a whole.

From 2015 onwards there will be an annual tax burden which we estimate at approx. 25 million. Of this a large part can be recovered according to the methodology of the VREG via an increase in the electricity and natural gas distribution network prices.

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 account. 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.

Infrax's profit is EUR 150,022. There is no financial profit or extraordinary profit.

It will be proposed at the General Meeting to add an amount of 7,501.10 euros to the legal reserves, and the balance, 142,520.90 euros, to be paid out to the shareholders as dividends.

Important events after the closure of the annual accounts for 2014

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 2014

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.

Frank Vanbrabant
CEO