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INFRAX

Financial report on the aggregated financial statements
for the period ending on 31 December 2017

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1 Management Report

1.1 Merger of Infrac 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 Infrac and all Infrac 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 Infrac 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.

Infrac's contractual personnel will be taken over as from 1 July 2018 by Fluvius CVCA. The statutory personnel will be transferred to Infrac 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 Infrac 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.

1.2 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.

1.3 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.

1.4 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 Infrac Limburg, Inter-media, Inter-energa, Infrac 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 Infrac 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.

1.5 Exit from Inter-Regies

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

1.6 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.

1.7 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 Infrac, it was decided at the beginning of 2018 to dissolve Warmte@Vlaanderen. The heating activities will be developed within Fluvius cvba.

1.8 Infrac 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. Infrac 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. Infrac 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.

1.9 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.

1.10 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.

1.11 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 Infrac 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 Infrac 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.

1.12 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 Infrac (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

1.13 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 Infrac customers. Infrac 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.

1.14 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.

1.15 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.

1.16 Infra-X-net

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

In this context, Infrac 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 Infrac;
- 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.

1.17 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 making use of this service, and signing a cooperation agreement with Infrac.

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%.

1.18 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 Infrac at 56 million euro, or approximately €100 per connection point.

1.19 Public WiFi

In 2015, the Board of Directors agreed to offer the cable municipalities 'Infrac 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 Infrac which connects municipal buildings to each other and to Infrac. 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.

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

A number of local authorities approached Infrac 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 Infrac'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 Infrac data center.

1.21 Fiber to the Home (FTTH)

Back in 2015, Infrac 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.

Infrac 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	Infracx 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.

1.22 Lighting plan

In order to come up with a clear public lighting policy, Infracx 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. Infracx 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.

1.23 Sewerage

Infracx provides sewerage activities in 83 local authority areas. That makes Infracx 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. Infracx 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, Infrac West and Iveg are setting up sewerage funds per local authority. Local authorities can finance the following activities via the sewerage funds:

1. subsidies for investments without involvement of the Flemish Region;
2. (supplementary) subsidies for works on private land;
3. 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.

1.24 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 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 € 2.2738/m³ and the comfort tariff € 4.5477/m³.

1.25 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 Infrac 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, Infrac 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.

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

1.27 Financing of distribution system operators via Infrac

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

Infrac 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).

Infrac's balance sheet was significantly influenced by the financing activity that Infrac 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. Infrac 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

		Infrac Limburg	Infrac 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

Infrac 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.

1.28 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.

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

On 13 December 2016 the Fitch rating agency confirmed the rating to Infrac. 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 Infrac 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 Infrac/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 Infrac to Fluvius);
- Possible risk of change in EMTN guarantee structure, for example in the event of a merger of an Infrac DSO and an Eandis DSO.

According to the current prospectus of the EMTN programme, a merger of Infrac 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.

Infrac 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.

1.29 Pension funds: transition from Branch 21 to Branch 23

All Infrac DSOs have entered into a pension contract with Ethias for their statutory personnel. These funds were managed in Branch 21 - except at Infrac 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	Infrac Limburg	Infrac 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

1.30 Legal framework

In 2017, the Infrac 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, Interenerga 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.

1.31 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.).

1.32 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	36.6	63.8	54.1	17.3	257.8
(+3.8)	(+0.4)	(+20.4)	(+15.9)	(+5.7)	(+46.2)

(x): increase or decrease compared with 2016

1.33 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.

2 Information about the company

Infrax cvba was founded on 7 July 2006 and is the common operating company of Infrax Limburg, Infrax West, Iveg, PBE and Riobra.

On behalf of and for the account of its shareholders, Infrax carries out tasks including the following:

- in general, the provision of management and other services and making available knowhow to its shareholders;

- preparation and implementation of the decisions of the management bodies of its shareholders;
- all operational tasks in the context of the operation, maintenance and development of the grids and systems;
- provision of all services to the distribution system users within the framework of the activities of its shareholders from the technical, administrative and commercial viewpoint;
- promotion of the cooperation between the shareholders;
- creative development of new products and services.

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

3 Summary of the main recording and valuation rules

In this chapter, the main recording and valuation rules are explained. These are established by the Boards of Directors of the various DSOs¹ in accordance with Belgian accounting rules (BE-GAAP).

For the regulated activities, the guidelines of the regulator VREG are applied. On 1 July 2014, the power to set tariffs for electricity and gas were transferred from the federal regulator CREG to the regional regulator VREG (for Flanders) and CWaPE (for Wallonia). CWaPE indicated that it will continue to use the existing regulation for the Walloon region for the years 2015, 2016 and 2017, with the consequence that there are no changes in the accounting treatment. VREG has used a new tariff methodology since 2015 based on a price cap rather than a cost-plus system. This leads to a few changes in the accounting treatment as explained in more detail below.

3.1 Criteria for aggregation

The aggregated figures comprise the following DSOs:

Infrax, Infrax Limburg, Inter-energa, Inter-aqua, Infrax West, Inter-media, Iveg, Riobra and PBE. The Infrax aggregation consists of the addition of the annual financial statements of all DSOs, drawn up according to BE GAAP.

Specifically, the term aggregation is used and not consolidation. This is because the financial statements, as drawn up in accordance with BE GAAP, of the aforementioned entities are added together and where reciprocal transactions (sales, costs, dividends) and positions (participating interests, receivables, liabilities) are eliminated.

The info with regard to the accounting periods ending on 31 December 2017 and 2016 is taken from the individual audited annual financial statements 2017 and 2016 of each DNB.

The audited figures of the various DSOs have already been presented to members of the various Boards of Directors but still need to be approved by the General Meeting of the various DSOs.

Since Infrax, in the context of the annual obligations under Belgian accounting legislation, is not obliged to draw up a cash flow statement, the cash flow statement for the years 2017 and 2016 as

¹ Distribution System Operator

shown in this report is based on the audited figures of the individual DSOs and drawn up according to the calculation method as applied in the First software (the software used to draw up Belgian annual financial statements).

3.2 General valuation rules

1. Formation expenses

The costs preceding operation and the various expenses relating to the fixed assets under construction, are valued at cost.

These expenses will be depreciated using the straight-line method over 5 years.

2. Intangible fixed assets

The intangible fixed assets heading comprises the costs of software licences, costs of research and development, concessions, patents and costs for the inventory and modelling of sewerage networks, and are valued at acquisition cost.

The costs of software licences will be depreciated using the straight-line method over 10 years.

VREG uses a depreciation percentage of 20% (5 years) for research and development costs, concessions, patents, licences, knowhow, (trade) marks and similar rights and a percentage of 0% for advance payments. Depreciation on goodwill and formation expenses is not allowed.

3. Tangible fixed assets

As described in the Royal Decree of 30 January 2001 implementing the Companies Code, tangible fixed assets, including any additional acquisition costs, are recorded at acquisition or bringing-in value, except for self-produced assets which are valued at price of manufacture, as defined in Article 37 of the Royal Decree of 30 January 2001 implementing the Companies Code.

Revaluation

Following the circular BA 2003/02 of 25 April 2003 from the Flemish Community - Home Affairs administration, the Board of Directors of the DSOs decided on 22/3/04, with effect from the 2003 financial year, to abolish the annual revaluation of tangible fixed assets. The revaluations with regard to the past are contained in the annual financial statements and are then depreciated according to the depreciation percentages provided for by the regulators.

Valuation of the RAB for the electricity and gas distribution systems

RAB stands for 'regulated asset base'. It is the basis for calculating depreciation and the fair profit margin. The RAB value is the result of the initially calculated and the economic reconstruction value approved by the regulator of the tangible fixed assets (iRAB or initial RAB value) plus the annual investments, minus the annual depreciation and divestments. The economic reconstruction value of the regulated fixed assets is based on a detailed technical inventory of all network components.

The RAB value is calculated annually as follows:

- Plus
 - new investments.
- Minus
 - the contributions of grid users;

- investment grants;
- the depreciation and write-downs realized;
- divestments;
 - disposals of assets at their historic acquisition cost plus
 - the write-offs of the remaining surplus value on the assets at a rate of 2% annually (approximately equal to the observed average annual rate of divestments).

3.1 Depreciation

Depreciation is calculated on the acquisition or bringing-in value minus the contributions of the grid users.

The added value of the regulated assets is depreciated annually at 2% in accordance with the regulation of CREG, VREG and CWaPE.

Depreciation is applied using the straight-line method according the percentages shown below. Depreciation is calculated *pro rata temporis* from the date when the assets were taken into use. No depreciation is applied to the fixed assets under construction and land.

Depreciation on the transmission network (36kV/70kV) is applied in accordance with the CREG guidelines as incorporated into the Royal Decree on multi-annual tariffs (RD of 8 June 2007):

- 2 % (50 years) for the cables and 36 kV and 70 kV lines;
- 3 % (33 years) for the buildings, posts, cabins and stations + equipment of the 36 kV and 70 kV stations;
- 20% (5 years) on other equipment and fixtures and fittings;
- 20% (5 years) on vehicles and information technology.

The depreciation rates for the distribution grids are applied, as from 2015, in accordance with the VREG guidelines:

- 0% for land;
- 3% (33 years) for industrial buildings;
- 2% (50 years) for administrative buildings;
- 2% (50 years) for cables and lines for electricity distribution and pipes for gas distribution;
- 3% (33 years) for posts, cabins, stations, connections, measuring apparatus for electricity and natural gas distribution;
- 6.67% (15 years) for reused equipment of cabins;
- 10% (10 years) for remote-reading meters and budget meters, combined heat and power systems, teletransmission and optical fibres, CAB, remote control and dispatching equipment, tools and furniture, and other tangible fixed assets (also single operator);
- 20% (5 years) on vehicles;
- 33% (3 years) on administrative equipment (information technology and office);
- 20% (5 years) on clearing house project and smart meters project
-

CWaPE applies the following depreciation percentages in 2015 and 2016 and 2017 (in accordance with the accounting rules of CREG as contained in the Royal Decree, since repealed, of 2 September 2008):

- 3% (33 years) for industrial buildings;
- 2% (50 years) for administrative buildings;
- 2% (50 years) for cables and lines for electricity distribution and pipes for gas distribution;
- 3% (33 years) for posts, cabins, transformer stations and measuring apparatus;

- 10% (10 years) for teletransmission and optical fibres;
- 20% (5 years) on vehicles;
- 10% (10 years) for remote reading and budget meters, combined heat and power systems, CAB, remote control and dispatching equipment, lab equipment tools and furniture, electronic equipment for cable television and other tangible fixed assets;
- 33% (3 years) on administrative equipment (information technology and office).

As from 2018, new depreciation percentages will be drawn up by VREG and/or CWaPE.

3.2 Cost price components

The capitalized costs of contractors, direct personnel costs and materials are increased by a flat-rate supplement for indirect costs. These indirect costs comprise the portion of the administrative overheads and operating costs that cannot be allocated to identified investment expenditure.

4. Financial fixed assets

They are recorded at their acquisition value.

In the event of a lasting reduction in value, a write-down is recorded.

5. Stocks - work in progress

The stocks in the warehouses are included on the balance sheet at moving average prices.

The work in progress is recorded at cost price. Advance payments are recorded in the balance sheet under heading 46.

Based on the stock rotation speed, provisions for write-downs are calculated.

The calculation is performed as follows:

Stock of items not moved during the past 12 months:

a provision is made of 33% of the value as recorded in the stock.

Stock of items not moved during the past 24 months:

a provision is made of 66% of the value as recorded in the stock.

Stock of items not moved during the past 36 months:

a provision is made of 100% of the value as recorded in the stock.

As from the 2016 financial year, no account is taken of the strategic spare parts in the calculation basis for the obsolete stock.

6. Receivables and debts

The receivables and debts are recorded at their original value. On 31 December 2017, there were neither receivables nor debts in foreign currency.

The complete write-off of outstanding customer invoices occurs after completion of the collection procedures.

The following debtors are considered as doubtful:

- bankrupt customers or debtors who have applied for composition;
- debtors whose deliveries have been suspended due to non-payment;

- the receivables from customers that have moved and are unreachable.

The provision for doubtful debtors is set up on the basis of the due date balance as at 31 December of the current financial year. The receivables are recorded in the books of Infrac (since Infrac invoices on behalf of and for the account of the various DSOs).

Here a distinction is made between, on the one hand, the dropped customers (social supplier) and on the other hand, the non-dropped customers (other customers).

The calculation is made for each of this group of customers:

Dropped customers (social supplier)

- for the receivables of dropped customers with a payment agreement, a provision is allowed of 50% of the total outstanding balance excluding VAT;
- for the receivables of customers with a collective debt settlement, a provision is allowed of 100% of the total outstanding balance excluding VAT;
- for the other receivables, a provision is made of 100% for the balances excluding VAT that have been outstanding for more than a half-year (180 days).

Non-dropped customers - other customers

For the calculation of the provision on the other receivables, the following percentages are applied:

- outstanding balance excluding VAT with due date < 60 days: 0%;
- outstanding balance excluding VAT with due date > 60 days and < 180 days: 20%;
- outstanding balance excluding VAT with due date > 180 days and < 365 days: 40%;
- outstanding balance excluding VAT with due date > 365 days and < 730 days: 60%;
- outstanding balance excluding VAT with due date < 730 days: 80%.

7. Capital grants received

Due to their uncertain character concerning receipt, date of receipt and size of the grant received the investment grants are posted on receipt.

The amount of investment grants received from various authorities for investment in sewerage works amounts to 25.6 million euro in 2017.

8. Financial instruments

In order to hedge the interest rate risk of a number of long-term loans, the various DSOs make use of an IRS (Interest Rate Swap) where the variable EURIBOR interest rate is swapped against a fixed IRS interest rate for the complete term of the loan. Here is a summary of the interest rate swaps on 31 December 2017:

- Infrac loan (2011-2031): 70 million euro – real value on 31 December 2017 amounts to - 6,112,401.90 euro;
- Infrac West loan (2012-2022): 30 million euro – real value on 31 December 2017 amounts to - 406,596.71 euro;
- Iveg loan (2012-2022): 10 million euro – real value on 31 December 2017 amounts to - 135,533.37 euro;
- PBE loan (2012-2022): 10 million euro – real value on 31 December 2017 amounts to - 135,533.37 euro;
- Inter-energa loan (2012-2022): 40 million euro – real value on 31 December 2017 amounts to - 585,995.96 euro;

- Inter-Aqua loan (2012-2022): 20 million euro – real value on 31 December 2017 amounts to - 292,997.98 euro;
- Inter-Aqua loan (2016-2036): 58.6 million euro – real value on 31 December 2017 amounts to - 9,053,399.56 euro.

The real value (mark-to-market valuation) of the interest rate swaps is not included in the accounts (in accordance with Belgian accounting standards), but the real value is explained in the individual financial statements.

The real value (mark-to-market valuation) is subject to fluctuations in the interest rate market. The negative valuation of the interest rate swaps is fully compensated for the low EURIBOR interest rate as recorded in the loan contracts.

4 Financial summaries

4.1 Aggregated profit and loss account

(In thousands of EUR)	Note	31/12/2017	31/12/2016
<u>OPERATING INCOME</u>		<u>880,428</u>	<u>977,745</u>
Turnover	5.1.1	710,638	696,048
Change in the stock of work in progress	5.1.3	1,309	653
Other operating income	5.1.3	160,385	268,727
Non-recurring operating income	5.1.4	8,096	12,316
<u>OPERATING CHARGES</u>		<u>752,891</u>	<u>848,976</u>
Trade goods and raw materials	5.2.1	19,457	19,064
Services and other goods	5.2.2	426,883	536,046
Remuneration, social security costs and pensions	5.2.3	148,061	145,926
Amortization and depreciation of non-current assets	5.2.4	122,148	112,600
Impairment stocks, work in progress and trade receivables	5.2.5	828	3,177
Provisions for liabilities and charges	5.2.6	2,472	-114
Other operating charges	5.2.7	6,032	5,628
Non-recurring operating charges	5.2.8	27,010	26,650
OPERATING PROFIT		127,537	128,769
<u>FINANCIAL INCOME</u>		<u>26,814</u>	<u>26,084</u>
Income from financial fixed assets	5.3.1	7,384	7,362
Income from current assets	5.3.2	668	517
Other financial income	5.3.3	18,762	18,204
<u>FINANCIAL CHARGES</u>		<u>30,511</u>	<u>34,381</u>
Debt charges	5.4.1	30,484	34,234
Other financial charges	5.4.2	27	147
PROFIT (LOSS) FOR THE PERIOD BEFORE TAX		123,840	120,472
Transfer from deferred taxes	5.5	328	587
Transfer to deferred taxes	5.5	-18	-120
TAXES		41,697	36,198
Income taxes	5.6	41,857	36,926
Adjustement of income taxes and write-back of provisions for taxes	5.6	-160	-728
PROFIT (LOSS) OF THE PERIOD		82,453	84,740
Transfer to untaxed reserves	5.7	54	233
PROFIT (LOSS) FOR THE REPORTING PERIOD		82,399	84,508

4.2 Aggregated balance sheet

(In thousands of EUR)	Note	31/12/2017	31/12/2016
<u>Non-current assets</u>		<u>3,523,047</u>	<u>3,447,881</u>
Formation expenses	5.8	-	5
Intangible fixed assets	5.9	15,324	23,330
Property, plant and equipment	5.10	3,209,143	3,137,635
Financial fixed assets	5.11	105,769	105,254
Affiliated enterprises		11,547	11,547
Other enterprises linked by participating interests		13,442	12,942
Other financial assets		80,780	80,765
Long term receivables	5.13	192,811	181,658
<u>Current assets</u>		<u>547,763</u>	<u>687,207</u>
Stocks and work in progress	5.12	40,862	35,198
Amounts receivable within 1 year	5.13	178,655	168,165
Current investments	5.14	7,002	12,011
Cash and cash equivalents	5.14	55,536	45,307
Deferred charges and accrued income	5.15	265,708	426,526
TOTAL ASSETS		4,070,810	4,135,088

(In thousands of EUR)	Note	31/12/2017	31/12/2016
<u>EQUITY</u>	4.3	<u>2,811,994</u>	<u>2,752,906</u>
Capital	5.16	1,081,666	1,081,360
Share premium account		115,589	115,589
Revaluation surpluses		509,599	523,084
Reserves	5.16	908,384	859,667
Investment grants		196,756	173,206
Provisions for liabilities and charges	5.17	23,648	21,280
Deferred taxes	5.17	10,355	12,182
<u>LIABILITIES</u>		<u>1,224,813</u>	<u>1,348,720</u>
<u>Non-current liabilities</u>	5.18	<u>800,684</u>	<u>881,708</u>
Financial debts		800,663	873,790
Other debts		21	7,918
<u>Current liabilities</u>	5.19	<u>272,839</u>	<u>299,395</u>
Current portion of long term payables		74,333	75,290
Financial debts		25,000	25,250
Trade payables		69,431	69,904
Advance payments on work in progress		5,193	1,636
Taxes, remuneration and social security		46,177	79,701
Other current liabilities		52,705	47,613
Accruals and deferred income	5.20	151,290	167,617
TOTAL LIABILITIES		4,070,810	4,135,088

4.3 Aggregated statement of changes in equity

(In thousands of EUR)	Share Capital	Share premium account	Revaluation surpluses	Reserves*	Accumulated profits*	Investment grants **	Total
Total on 1 January 2016	1,080,505	114,582	534,948	767,714	40,985	162,302	2,701,036
Total income for the reporting period	855	1,007	-11,864		84,508	10,904	85,410
Addition/decrease reserves				12,056			12,056
Dividends paid					-45,596		-45,596
Total on 31 December 2016	1,081,360	115,589	523,084	779,770	79,897	173,206	2,752,906
Total income for the reporting period	306		-13,485		82,399	23,550	92,770
Addition/decrease in reserves				12,644			12,644
Dividends payable					-46,326		-46,326
Total on 31 December 2017	1,081,666	115,589	509,599	792,414	115,970	196,756	2,811,994

* The amount of the profit carried forward and the reserves corresponds to the total reserves on the balance sheet

** in the context of corporation tax, at the year-end a proportion is transferred to deferred taxation

4.4 Aggregated cash-flow statement

(In thousands of EUR)		Notes	31/12/2017	31/12/2016
Operating Activities composed of	Profit for the reporting period		82 399	84 508
	Depreciation/amortization of non-current assets	5.2.4	122 148	112 600
	Impairment current assets (Recognition +; Reversal -)	5.2.5	828	3 177
	Changes in provisions (Recognition +; Reversal -)	5.2.6	2 472	-114
	Dividends received	5.3.1	-7 384	-7 362
	Extraordinary (reversal) depreciation	5.1.4	-31	-151
	Gains/losses on disposal/retirement/sale of fixed assets	5.1.4/5.2.8	4 895	4 098
	Reversal of provision for liabilities and charges		-	-
	Movement in investment grants	5.3.3	-3 876	-4 228
	Cashflow from operating activities		201 450	192 528
	Changes in trade and other payables	5.19	-473	2 439
	Changes in payables for tax, remuneration and social charges	5.19	-33 525	19 077
	Changes in advance payments	5.19	3 556	-50
	Changes in accrued liabilities	5.20	-16 326	206
	Changes in operating liabilities		-46 768	21 672
	Changes in receivables > 1 year	5.13	-11 153	-1 119
	Change in stocks	5.12	-5 664	-3 341
	Changes in trade and other receivables	5.13	-10 490	-13 938
	Impairment current assets (Recognition +; Reversal -)	5.2.5	-828	-3 177
Changes in deferred charges and accrued income	5.15	160 818	219 343	
Changes in operating assets		132 683	197 768	
Changes in provisions and deferred taxes	5.17	-1 932	715	
<u>OPERATING CASHFLOW AFTER TAX</u>			285 434	412 682
Investing Activities in	Formation expenses		0	0
	Intangible fixed assets	5.9	-7 603	-5 178
	Property, plant and equipment	5.10	-178 011	-146 015
	Financial fixed assets	5.11	-515	-11
	Proceeds from financial fixed assets	5.3.1	7 384	7 362
Losses and gains on disposal/retirement/sale of fixed assets	5.1.4/5.2.8	-4 895	-4 098	
<u>INVESTMENT CASHFLOW</u>			-183 640	-147 940
<u>FREE CASHFLOW BEFORE FINANCING</u>			101 794	264 742
Financing activities in	Changes in equity	4.3	59 089	51 870
	Result of the accounting period	4.3	-82 399	-84 508
	Profit distribution	4.3	46 326	48 546
	Change in investment grants	5.3.3	3 876	4 228
	Equity		26 892	20 136
	Changes in financial debts > 1 year	5.18	-73 127	-96 961
	Changes in financial debts < 1 year	5.19	-250	-114 500
	Changes in amounts payable < 1 year	5.19	-958	689
	Financial debts		-74 335	-210 772
	Changes in other payables < 1 year	5.19	5 092	7 229
	Changes in other payables > 1 year	5.18	-7 897	2 051
Profit distribution of the accounting period	4.3	-46 326	-48 546	
Other payables		-49 131	-39 266	
<u>FINANCING CASHFLOW</u>			-96 574	-229 903
<u>TOTAL CASHFLOW</u>			5 220	34 840
	Cash inflow		319 710	440 181
	Cash outflow		-314 490	-405 341
<u>Movement in cash and cash equivalents</u>			5 220	34 840

5 Notes

5.1 Operating income

5.1.1 Turnover

(In thousands of EUR)		2017	2016
Electricity + 70KV/36KV	Distribution	385,686	421,697
	Injection	2,771	2,944
	Transportation costs Elia	117,406	121,826
	Network contribution	31,970	30,414
	Revenues 70KV/36KV	11,530	11,669
	Other	-27,899	-76,868
Total electricity + 70KV/36KV		521,464	511,682
Natural gas	Distribution	91,082	77,265
	Other	5,892	15,490
Total natural gas		96,974	92,755
Sewerage	Sewerage fees	72,239	71,409
CTV	Fees	11,197	10,930
Other	Other sales	8,764	9,272
TOTAL		710,638	696,048

Infrac obtained the majority of its income from the fee for the transport of electricity and gas via its distribution grids.

This income has to be evaluated together with the regulatory transfers (see below).

The other sales for electricity and gas comprise on the one hand supplies of energy to persons who cannot find an energy supplier on the market due to payment difficulties, and on the other hand changes in turnover due to the regulatory assets and liabilities (see note 4.1.2. Regulatory transfers).

The income from the sewerage activity includes the charges for the municipal sanitation charge by the drinking water companies.

The income from the cable television distribution activity consists mainly of the fees received from Telenet via Interkabel Vlaanderen. This concerns the fees for the conversion of the cable network into an interactive telecommunications network based on the previous agreements of 1996, namely an annuity fee and 'clientèle fee'.

The income from the cable television distribution activity also includes the income related to Infra-X-net and Infra-GIS.

The other sales relate to various charges to third parties.

5.1.2 Regulatory transfers

(In thousands of EUR)	2017	2016
Addition of transfers	-3,876	-18,481
Recovery of transfers	-26,792	-51,971
TOTAL	-30,668	-70,452

In execution of its new tasks, on 30 September 2014 VREG approved a new tariff methodology based in price capping.

The new method provides for 2 budgets: an exogenous and an endogenous (non-exogenous) budget. Exogenous costs are costs on which the distribution system operator has no impact whatever. These costs are listed exhaustively and consist of: Rational Energy Use grants, green power and heat and power certificates, free kWh, transmission charges, levies, taxes (except corporation tax, property tax), certain pension allocations and prefinancing costs for the stock of green power and heat and power certificate and regulatory balances. The exogenous costs are charged 'pass-through' to customers. All other costs (operating costs, depreciation, financing costs, ...) are 'endogenous'. Henceforth VREG determines the endogenous budget itself. It bases its calculations on the past and projects the sector trend in the past to the future.

As you can see above, for 2017 a surplus was generated on the total exogenous budget (this was the result of a surplus in the sales of the electricity and gas activity in 2017), which reduced the turnover.

VREG established the fee for the equity and debt capital for 2017 as follows: equity - limited in amount to 40% of the Regulated Asset Base (RAB) - is paid at 5.2% after tax. The debt capital - calculated at 60% of RAB - and the net working capital is remunerated at 3%. The prefinancing of the unsold GPCs and HPCs is remunerated at the rate of interest equal to the legal interest rate in civil and commercial matters, which was 1.74% for 2017. The prefinancing of the regulatory deficits (the balances from 2015 onward) on the exogenous costs (the charging of the exogenous costs at their real value would give rise to differences between the tariffs and the book cost) is remunerated at the rate of interest equal to the legal interest rate in civil and commercial matters, which was 1.57% for 2017. The prefinancing of the regulatory deficits (the balances before 2015) is remunerated at the rate of interest equal to the legal interest rate in civil and commercial matters, which was 2% for 2017.

VREG also decided to recover the deficits and surpluses incurred in the period 2010-2014 as from 2016 over a five-year period. The deficits and surpluses incurred in the year 2015 are being recovered/charged as from 2017.

For Infrax as a whole, the permitted income in 2017 in Flanders for distribution of electricity is 417.3 million euro and 88.3 million euro for distribution of natural gas.

5.1.3 Other operating income

(In thousands of EUR)	2017	2016
Change in the stock of work in progress	1,309	653
Other operating income	160,385	268,727
TOTAL	161,694	269,380

The other operating income concerns mainly the operating fee received from Telenet (21,938 k euro), sales of green power and heat and power certificates (77,271 k euro), the income received within the framework of the annual solidarity exercise in relation to the green power and heat and power certificates (47,577 k euro).

5.1.4 Non-recurrent operating income

(In thousands of EUR)	2017	2016
Capital gains on derecognition/sale of fixed assets	113	650
Extraordinary income related to receivables	139	119
Other extraordinary income	7,844	11,547
TOTAL	8,096	12,316

The surplus relates, on the one hand, to the return of articles to stock. This income is neutralised by an identical amount in the operating costs (Trade goods, raw materials and auxiliary materials). On the other hand, the surplus relates to income received for recovery of sustainable products when materials are scrapped.

The extraordinary income on receivables relates to payments received where the outstanding receivable had already been written off as it was no longer considered collectible in the past.

The other extraordinary income mainly relates to the financial reconciliation (settlement of actual transported volumes of electricity and gas via FERESO) for an amount of 4,287 k euro.

5.2 Operating costs

5.2.1 Trade goods, raw materials and auxiliary materials

(In thousands of EUR)	2017	2016
Purchase of energy	5,068	3,658
Purchase of grid losses	14,390	15,406
TOTAL	19,457	19,064

The energy purchase concern the purchase of electricity and gas for the social-tariff customers. The purchases of grid losses concern the payments by Infrac to energy suppliers for the grid losses of electricity.

5.2.2 Services and other goods

(In thousands of EUR)	2017	2016
Contractors' costs for construction and maintenance of grids	161,831	135,335
Fees including use of installations	8,306	8,031
Advertisements, information, documentation, etc.	2,253	2,257
Public service obligations	273,604	373,592
Contracts and management costs	3,535	3,874
Consultancy and other services	4,833	5,696
Staff of third parties	12,705	15,976
Transportation fee for Elia	121,202	119,117
Other	96,414	83,714
Transfer to fixed assets	-257,800	-211,546
TOTAL	426,883	536,046

The costs in relation to services and other goods fell by 109,163 k euro compared with 2016. This fall is mainly the consequence of a fall in the costs relating to the public service obligation. The costs relating to the public service obligation comprise the costs for rational energy use and the costs relating to green power and heat and power certificates. The fall compared with 2016 is mainly due to the SGEI fee (Service of General Economic Interest), for more detail see below 5.15 Deferred charges and accrued income.

5.2.3 Remuneration, social security costs and pensions

(In thousands of EUR)	2017	2016
Salaries	104,316	102,147
Employers' contributions to social insurance	34,658	34,065
Other personnel costs (among others charges for pension schemes and supplementary insurance, meal vouchers,....)	9,087	9,714
TOTAL	148,061	145,926

Personnel costs amount to 148,061 k euro in 2017, a rise of 1.5% compared with 2016. The average number of active employees was 1,398.21 FTEs in 2017 compared with 1,444.59 FTEs in 2016.

5.2.4 Depreciation and write-downs on formation expenses, intangible and tangible fixed assets

(In thousands of EUR)	2017	2016
Amortization and depreciation of non-current assets	122,148	112,600
TOTAL	122,148	112,600

Depreciation on the intangible fixed assets rose by 7,995 k euro. Following on from the planned merger with Eandis, a number of projects with regard to Atrias within Infrac were stopped, which resulted in accelerated depreciation of 8 million euro. Depreciation on tangible fixed assets rose by 1,553 k euro.

5.2.5 Amounts written off on stocks, work in progress and trade receivables

(In thousands of EUR)	2017	2016
Impairment of stocks	-190	1,143
Impairment of trade receivables < 1 year	1,018	2,034
TOTAL	828	3,177

In 2017, the provision for write-downs on stocks was 2,767 k euro and at the same time, the 2016 provision was written back for an amount of 2,957 k euro, which means that the net impact in the profit and loss account is (190) k euro. The write-downs on trade receivables concerns the write-offs of definitively bad debts.

The large fall compared with 2016 relates to a catching-up operation concerning definitive write-offs of bad debts in 2016.

5.2.6 Provisions for liabilities and charges

(In thousands of EUR)	2017	2016
Provision for doubtful debtors	2,520	43
Others	-48	-157
TOTAL	2,472	-114

The provision for bad debts rose 2,477 k euro compared with 2016. This rise is connected, on the one hand, with the fact that in 2016, there was a catching-up movement concerning the definitive write-off of bad debts. On the other hand, the outstanding receivables relating to new connections were included from 2017 onward in the calculation of doubtful debtors, because since the end of 2016, we have not been allowed to invoice in advance (previously, any request for a new connection was billed in advance).

5.2.7 Other operating charges

(In thousands of EUR)	2017	2016
Various taxes	736	332
Sewerage fund	5,296	5,296
TOTAL	6,032	5,628

The various taxes include mainly the 'Redevance de voiries' (road tax) and property tax. In her circular of April 2014, the Minister of the Environment stated that municipal sewerage income could only be used for (new) investment and maintenance expenditure on sewerage. Investments are deemed to include the repair of the superstructure or the laying of a new superstructure. The Boards of Directors of Inter-aqua, Riobra, Infrac West and Iveg have acceded to this request and will therefore no longer pay any dividends from the sewerage activity. Any profits will be reserved and kept available in sewerage funds. The setting-up of a sewerage fund will also provide a significant boost for additional investment in sewerage infrastructure. In 2017, Inter-aqua and Riobra set up a sewerage fund for an amount of 2,820 k euro for Inter-aqua and 2,476 k euro for Riobra.

5.2.8 Non-recurring charges

(In thousands of EUR)	2017	2016
Capital losses on the disposal/retirement of fixed assets	5,008	4,749
Other extraordinary charges	22,002	21,901
TOTAL	27,010	26,650

The write-downs recorded in both 2017 and 2016 concern mainly demolished assets.

The other extraordinary charges relate mainly to the allocation for pensions for an amount of 21,230 k euro, to guarantee the pension obligations for the statutory personnel.

5.3 Financial income

5.3.1 Income from financial fixed assets

(In thousands of EUR)	2017	2016
Income from financial fixed assets	7,384	7,362
TOTAL	7,384	7,362

The income from financial fixed assets concern the dividends received from various participating interests in other companies including Interkabel Vlaanderen and Publi-T.

5.3.2 Income from current assets

(In thousands of EUR)	2017	2016
Income from current assets	668	517
TOTAL	668	517

The income from current assets concerns interest on various outstanding receivables and investment income.

5.3.3 Other financial income

(In thousands of EUR)	2017	2016
Investment grants and interest subsidies	3,876	4,228
Other various financial revenues	14,886	13,976
TOTAL	18,762	18,204

The other financial income relates mainly to the depreciation on the capital and interest grants and the Telenet annual lease payment.

Under the 2008 contract with Telenet, Infracx receives a fair profit payment (6.25%) on the value of the cable network that is given to Telenet under a long-term lease until 2046.

5.4 Financial charges

5.4.1 Debt service charges

(In thousands of EUR)	2017	2016
Leasing debts	636	694
Interest charges from long and short-term loans	29,848	33,540
TOTAL	30,484	34,234

The interest charges on long and short-term financing relates mainly to the financial charges on bank loans. On the other hand, charges relating to the bond loan are also included in the heading 'Interest charges from long and short-term financing' for an amount of 16,113 k euro.

These charges relate to the interest charges and the expenses relating to the issue below par (discount) and the other financial expenses relating to the bond loans of 2013 and 2014.

5.4.2 Other financial charges

(In thousands of EUR)	2017	2016
Bank costs	13	13
Other various financial charges	14	134
TOTAL	27	147

The other miscellaneous financial charges mainly comprise interest on overdue payment.

5.5 Transfer to and from deferred taxes

(In thousands of EUR)	2017	2016
Withdrawal from deferred taxes	328	587
Transfer to deferred taxes	-18	-120
TOTAL	310	467

Since 1 January 2015, associations with a mission are no longer automatically exempted from corporation tax.

All Infrac DSOs, except those that only carry out sewerage activities (Riobra and Inter-aqua) are therefore liable to corporation tax from 1 January 2015 onward.

The withdrawal from deferred taxation in 2017 relates to the portion of deferred taxes relating to depreciation on investment grants.

The transfer to deferred taxation in 2016 concerned the spread taxation on the sale of medium-voltage networks to the port of Antwerp.

5.6 Taxes

(In thousands of EUR)	2017	2016
Income taxes	41,857	36,926
Adjustement of income taxes and write-back of provisions for taxes	-160	-728
TOTAL	41,697	36,198

The taxes for 2017 mainly relate to corporation tax.

5.7 Transfer from untaxed reserves (+) Transfer to untaxed reserves (-)

(In thousands of EUR)	2017	2016
Transfer to untaxed reserves	54	233
TOTAL	54	233

The transfer to the tax-free reserves concerns the spread taxation on the sale of medium-voltage networks to the port of Antwerp and is included as a tax-free reserve in the equity.

5.8 Formation expenses

(In thousands of EUR)	31/12/2017	31/12/2016
Formation expenses	0	5
TOTAL	0	5

The reduction in the formation expenses is attributable to the fact that the restructuring costs were completely written off in 2017.

5.9 Intangible fixed assets

2017 (In thousands of EUR)	Concessions, patents, licences, brand
Acquisition value on 1 January 2017	89,472
Acquisitions	7,603
Other	-
Acquisition value on 31 December 2017	97,075
Accumulated depreciation on 1 January 2017	66,142
Amortization	15,609
Other	-
Accumulated amortization and impairment on 31 December 2017	81,751
Net book value on 31 December 2017	15,324

The investments for projects including the clearing house (Atrias) and smart meters and grids are recorded as intangible fixed assets. Following on from the planned merger with Eandis, a number of

projects with regard to Atrias within Infrac were stopped, which resulted in accelerated depreciation of 8 million euro.

Moreover, the intangible fixed assets item also includes the costs of software licences and costs for the inventory and modelling of sewerage networks.

5.10 Tangible fixed assets

2017 (In thousands of EUR)	Land and buildings	Plant machinery and equipment	Furniture and vehicles	Other *	TOTAL
Acquisition value on 1 January 2017	150,749	5,152,464	107,894	228,486	5,639,594
Acquisitions	1,791	129,138	4,638	100,561	236,128
Sales and disposals	-169	-29,068	-198	-33,039	-62,474
Acquisition value on 31 December 2017	152,371	5,252,534	112,334	296,009	5,813,248
Accumulated depreciation and impairments on 1 January 2017	67,221	2,319,816	98,946	15,976	2,501,959
Depreciations	2,251	100,062	2,656	1,383	106,352
Sales and disposals	-34	-4,005	-168	-	-4,207
Accumulated depreciation and impairments on 31 December 2017	69,438	2,415,873	101,434	17,359	2,604,104
Net book value on 31 December 2017	82,933	2,836,661	10,900	278,650	3,209,144

* Leasing and other similar rights, other tangible fixed assets and fixed assets under construction and prepayments.

The acquisitions under the heading 'Plant, machinery and equipment' mainly relates to investments in the distribution grids for electricity, gas, sewerage and cable television.

The net book value comprises, inter alia, the contributions paid by customers in relation to certain assets (third party payments) and corresponds to the real value of Infrac's grids.

5.11 Financial fixed assets

(In thousands of EUR)	31/12/2017	31/12/2016
Affiliated enterprises	11,547	11,547
1. Participating interests	11,547	11,547
2. Amounts receivable	-	-
Other enterprises linked by participating interests	13,442	12,942
1. Participating interests	13,442	12,942
2. Amounts receivable	-	-
Other financial assets	80,780	80,765
1. Shares	80,421	80,421
2. Amounts receivable and cash guarantees	359	344
TOTAL	105,769	105,254

The participating interest in **affiliated enterprises** concerns the 99.98% stake held by the Provinciale Brabantse Energiemaatschappij in Intergas. Intergas is the inter-municipal joint venture for gas distribution in Flemish Brabant, and is a participant in Inter-energa. Since mid-2003, Intergas has been converted from an operating company (gas) to an investment company.

The operating activities were transferred to distribution system operator Inter-energa. Besides the financial monitoring of its assets, Intergas acts as a reference shareholder of Inter-energa and in that way, upholds the interests of its 16 local authorities in Flemish Brabant.

The companies linked by **participating interests** are Interkabel (12,939 k euro), Inter-regies (3 k euro) and S-Lim (5 k euro). Interkabel Vlaanderen consists of associations with a mission, namely Infrax West, PBE, Inter-media and Integan, which provides service to one-third of the Flemish cable market.

Besides the important telecom arm, Interkabel also carries out cable television projects. So the cable companies' receiving stations are interconnected with fibre optic cable. This backbone ring carries the signals of a number of TV and radio stations. Interkabel also coordinates the investments of the associations in Telenet.

Inter-regies is the umbrella association of the public electricity, natural gas and cable distribution sector, set up on 22 October 1955 in Brussels, originally under the name 'Interpublic'. Inter-regies represents Belgian companies operating in:

- management of the electricity distribution systems
- management of the natural gas distribution systems
- cable television

S-Lim cvba (Smart Region Limburg) was founded on 7 August 2017 by Nuhmeris, Nuhma and Intermedia with the mission of making Limburg a better and more attractive society through the deployment of technology and innovation. S-Lim supports the affiliated local authorities in converting concrete administrative and social needs into technological and software applications.

The **other financial fixed assets** concern mainly shares in Publi-T (79,926 k euro)

Publi-T has as its mission the management of the Belgian local authorities' share in Elia, the national manager of the electricity transmission system, as well as the regional manager of some distribution

systems. As a strategic shareholder, Publi-T constantly watches over the interests of the municipal sector in this market segment.

Infrac's shares in [warmte@vlaanderen](#) and Fluvius each represent 9 k euro.

5.12 Stocks and work in progress

(In thousands of EUR)	31/12/2017	31/12/2016
Raw materials and consumables	39,379	35,216
Impairment of stocks	-2,766	-2,957
Projects in progress	4,249	2,939
TOTAL	40,862	35,198

In 2017, a provision was allocated for write-downs on stocks amounting to 2,766 k euro, and at the same time, the 2016 provision was written back for an amount of 2,957 k euro, which means that the net impact is (191) k euro.

The projects in progress concern the ongoing Esco projects, the projects relating to public lighting for the local authorities and the projects in progress for the autonomous municipal company Etiz. The autonomous municipal company Etiz has not had any activities of its own since 2012, but is still the owner of the electricity grid in Izegem. Etiz's operational activities were taken over by Infrac. Energy service company (ESCO) overs a total package of energy services to promote energy-efficiency of municipal buildings.

5.13 Trade debtors and other receivables

(In thousands of EUR)	31/12/2017	31/12/2016
Receivables outstanding more than one year	192,811	181,658
Amounts receivable within one year	178,655	168,165
TOTAL	371,466	349,823

The receivables in more than one year concern mainly the receivables from Telenet (188,808 k euro) in the context of the long-term lease signed in 2008 where the whole bandwidth (excluding bandwidth reserved for Infra-X-net) of the cable network exclusive to Telenet was given to Telenet under a long-term lease until the year 2046. Infrac retains the 'bare' ownership of the cable network; Telenet has obtained the usufruct of the cable network.

The long-term lease payment is an annual recurring payment on firstly the initial value of the cable network at the start of the contract and secondly a payment for the annual additional investment in the cable network. This long-term lease is a 'growing lease', i.e. it is increased annually by the investments.

These investments are repaid by Telenet over a period of 15 years, plus a fair profit margin of 6.25%.

The detail of the receivables within one year is as follows:

(In thousands of EUR)	31/12/2017	31/12/2016
Trade receivables from distribution grid activities	71,514	69,964
Trade receivables as a supplier of social services	9,247	7,817
Other trade receivables	63,153	63,551
Other receivables	34,741	26,833
TOTAL	178,655	168,165

The other trade receivables consist mainly of receivables relating to works carried out and services provided and invoiced costs relating to third parties.

The other receivables mainly relate to the repayments to be received in the next twelve months from Telenet under the long-term lease.

5.14 Current investments and cash at bank and in hand

(In thousands of EUR)	31/12/2017	31/12/2016
Current investments	7,002	12,011
Cash and cash equivalents	55,536	45,307
TOTAL	62,538	57,318

The total cash and cash equivalents consist of short-term bank balances, cash and investments in funds that can be immediately converted into cash. All funds are expressed in euro.

5.15 Deferred charges and accrued income

(In thousands of EUR)	31/12/2017	31/12/2016
Regulatory assets (regulatory transfers)	196,060	257,417
Stock of GPC and CHPC + solidarization	66,073	164,056
Miscellaneous	3,575	5,053
TOTAL	265,708	426,526

The detail of the operating differences as of 31 December 2017 is as follows:

(In thousands of EUR)	2017	2007 – 2016	Total
Electricity (inclusive Voeren)	4,256	325,383	329,639
Recovery balances electricity 2010-2015 (inclusive transportation network)	-61,960	-83,718	-145,678
Natural gas	541	18,873	19,414
Recovery balances natural gas 2010-2015	-4,550	-3,812	-8,362
Transportation network	356	691	1,047
TOTAL	-61,357	257,417	196,060

We see a fall in the regulatory assets in 2017 which is mainly the consequence of recovery of the balances from the past (2010-2015).

The amounts concerning the balances from the years 2010 to 2014 inclusive will be recovered over a 5-year period from 2016 onward. As from 2017, the balances for 2015 will be recovered.

Stock of green power certificates + solidarity

The stock of green power and heat and power certificates decreased sharply in 2017. At the end of 2017, the stock of green power and heat and power certificates represented 8.6 million euro for Infrax compared with 109.4 million euro at the end of 2016, which is a decrease of 100.8 million euro.

The GPCs are valued at 88 euro each and the HPCs at 20 euro each.

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.

5.16 Equity

The various components of the equity and the movements from 1 January 2017 to 31 December 2017 were shown in the 'Aggregated statement of changes in equity'.

The share capital amounts to 1,081,666 k euro at the end of 2017, which was an increase of 307 k euro compared with at the end of 2016. The subscribed capital is 1,081,950 k euro and the uncalled capital is -283 k euro.

The table below gives a summary of the capital in euro per activity in the capital (in units) of each DSO at the end of December 2017.

	Electricity	Natural gas	Sewerage	CTV	Public lighting
Capital in euro					
Inter-aqua			378,291,475		
Inter-energa	83,216,634	70,918,229			22,165,929
Inter-media				18,780,854	
Infrax Limburg	21,839,733		3,823,575	1,347,895	
Infrax West	78,062,300	12,000,000	137,528,725	13,252,500	
Iveg	38,040,000	17,772,500	30,812,500		10,885,000
Riobra			142,855,647		
PBE	70,061			2,806	
TOTAL	221,228,728	100,690,729	693,311,922	33,384,055	33,050,929

In 2017, an amount of 200 k euro of uncalled capital was paid up at Iveg, and on the other hand, a capital increase occurred amounting to 2.5 k euro for the sewerage activity.

A capital increase was also carried out in 2017 by Infrax West in relation to burying the grids for an amount of 104 k euro.

The revaluation surpluses remain unchanged.

The revaluation surpluses relate, on the one hand, to historic surpluses and to the RAB surpluses. The RAB value represents the value of the capital invested in the electricity and gas distribution grids.

The initial capital gains on the regulated assets are the subject of an annual evaluation and are taken out of service at 2% per year. Every 4 years, the depreciation of the RAB capital gain will be reviewed in the light of the actual capital gain of the assets taken out of service, and if necessary, the corrections required will be carried out at the currently used percentage of 2%.

The revaluation surplus is transferred annual at the year-end to a reserve account not available for distribution, in proportion to the depreciation recorded in the profit and loss account on the revalued part of the systems.

The summary of the reserves is as follows:

(In thousands of EUR)	Legal reserves	Unavailable reserves	Untaxed reserves	Available reserves	TOTAL
TOTAL on 1 January 2016	48,400	394,801	454	365,045	808,700
Endowment/decrease in reserves	2,139	11,824	233	36,772	50,968
TOTAL on 31 December 2016	50,539	406,625	687	401,817	859,668
Endowment/decrease in reserves	-605	13,381	142	35,798	48,716
TOTAL on 31 December 2017	49,934	420,006	829	437,615	908,384

A legal reserve is created for the profit for appropriation, amounting to 5% and a maximum of 10% of the fixed component of the capital as defined by the articles of association.

Since 2008, amounts have been recorded as non-available reserves for an amount equal to the depreciation of the (RAB capital gain) revaluation surplus in accordance with the settlement with CREG.

5.17 Provisions and deferred taxation

(In thousands of EUR)	31/12/2017	31/12/2016
Provision for Telenet - Proximus	14,090	14,090
Provision for doubtful debtors	9,248	6,801
Deffered taxes	10,355	12,182
Other	310	389
TOTAL	34,003	33,462

The provision for Telenet v. Proximus:

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.

The provision for doubtful debtors rose by 2,447 k euro in 2017. For the calculation of the provision, please refer to the valuation rules.

The other provisions concern, inter alia, a provision for life insurance.

5.18 Debts due in more than one year

(In thousands of EUR)	31/12/2017	31/12/2016
Financial debts	800,663	873,790
Other debts	21	7,918
TOTAL	800,684	881,708

The financial debts consist of:

- leasing debts amounting to 3,139 k euro;
- bond loan - EMTN (see note at the bottom of this detail section) amounting to 498,877 k euro;
- subordinated loan to partners of an amount of 12,207 euro for dividends still to be paid out in 2019;
- bank loans with a balance of 286,440 k euro.

5.18.1 EMTN - Euro Medium Term Note

With a view to financing investment in electricity, cable distribution, natural gas and sewage networks and the financing of working capital, Infrax cvba launched an EMTN program in 2013 for issuing bonds for a total amount of 500,000,000 euro spread over 4 years.

This programme is part of a diversification of funding sources, in addition to the existing conventional financing via bank loans, short-term credit lines and the issuing of treasury certificates.

The programme, approved by the FSMA on 1 October 2013, was completely underwritten by the partners in Infrax cvba.

A first issue took place in 2013, for an amount of 250 million euro with nominal interest of 3.75% and a 10-year term.

After obtaining the rating in October 2014, Infrac carried out a second bond issue. The updated prospectus was approved by the FSMA on 22 October 2014. This time too, the issue was a great success. The bond issue was for 250 million euro for a 15-year term at a nominal interest rate of 2.625%.

Due to the rating, there was more foreign interest than during the first issue in 2013.

Besides the EMTN programme, Infrac also has a programme of treasury certificates (commercial paper) of a maximum of 200 million euro, see amounts payable within one year, and a credit line of a maximum of 200 million euro at Belfius Bank and KBC Bank.

5.19 Amounts payable within one year

(In thousands of EUR)	31/12/2017	31/12/2016
Current portion of long term payables	74,333	75,290
Financial debts	25,000	25,250
Trade payables	69,431	69,904
Advance payments on work in progress	5,193	1,636
Taxes, remuneration and social security	46,177	79,702
Other current liabilities	52,705	47,613
TOTAL	272,839	299,395

For a summary of the heading 'Amounts payable > 1 year falling due within one year' please refer to the note on Amounts payable after more than one year - Financial and other debts above.

The balance of financial debts payable within one year concerns debts to financial institutions, with regard to treasury certificates (commercial paper) which had to be redeemed within the year. These are MTNs (Medium Term Notes) with an original term of 5 years.

Trade debts fell slightly by 473 k euro.

The prepayments received against orders concern mainly the advance payments invoiced in connection with works to be carried out and new connections.

The debts relating to taxes, salaries and social security fell by 33,525 k euro from the year end 2016, mainly due to a reduction in the tax liabilities recorded.

The other debts rose by 5,092 k euro in 2017. These debts mainly relate to the dividends to be paid, for an amount of 14,688 k euro and the sewerage fund for an amount of 25,288 k euro.

5.20 Accrued charges and deferred income

(In thousands of EUR)	31/12/2017	31/12/2016
Operating differences (regulatory transfers)	78,315	109,164
Turnover-energy in the meters	43,248	32,765
Miscellaneous	29,727	25,688
TOTAL	151,290	167,617

The detail of the operating differences as of 31 December 2017 is as follows:

(In thousands of EUR)	2017	2007 - 2016	Total
Electricity (inclusive Voeren)	5,553	74,783	80,336
Return balances electricity 2010-2015 (inclusive transportation network)	-31,486	-5,683	-37,169
Natural gas	3,353	69,151	72,504
Return balances natural gas 2010-2015	-8,269	-30,672	-38,941
Transportation network	0	1,585	1,585
TOTAL	-30,849	109,164	78,315

The exploitation differences concern the surpluses for gas and electricity, see also 4.14, which will be offset in future tariffs. The fall is mainly attributable to the return of the surpluses from 2010-2015.

The turnover - energy heading in the meters relates to the separation of the sales in the context of energy supplied but not yet invoiced to customers offset against advance payments received.

The miscellaneous balance mainly relates to the balances of the federal contribution and the financial charges yet to be paid.