

NOTES ON THE BALANCE SHEET

→ TANGIBLE ASSETS

The cumulative investment per category is shown below at book value:

IN THOUSANDS OF EUROS	2016	2015
Supra-municipal infrastructure	3,193,293	3,175,168
Water treatment infrastructure	2,508,955	2,465,210
Flemish Environment Agency assets purchased	331,935	347,191
Hydronaut studies	24,259	23,207
Investments in head office and operations	22,433	22,546
Projects not yet delivered, including land	305,711	317,014
Municipal infrastructure	25,114	26,288
	3,218,407	3,201,456

Under the Management Agreement, Aquafin collects domestic waste water in Flanders in collectors and transports it to treatment plants. First of all, Aquafin developed the necessary **supra-municipal infrastructure**: collector sewers for waste water, pumping stations and waste water treatment plants. Aquafin pre-finances the projects awarded and the water companies repay the investments.

Water treatment infrastructure includes the aforementioned collector sewers for waste water, pumping stations and waste water treatment plants. This relates to all investment projects already delivered from the first delivery in 1992 to the end of the last financial year.

In 1994, under the Management Agreement, Aquafin acquired the right to use plants built in the period preceding Aquafin's establishment and owned by the Flemish Environment Agency. In subsequent years, these plants were not only operated by Aquafin, but also extended and renovated. The investments relat-

ing to this are shown as *Flemish Environment Agency assets purchased* under Aquafin's tangible assets. Since the management of the same assets by both Aquafin and the Flemish Environment Agency is inefficient, the Flemish Government decided – on Aquafin's recommendation – to allow Aquafin to buy out the plants and associated land. These purchases began in 2010.

Hydronaut studies are studies that are carried out in order to ensure the correct design of the supra-municipal investment project. These studies are also carried out in relation to the management of existing infrastructure.

Investments in head office relate to investments in hardware, software, laboratory equipment, furniture, materials and equipment required for the functioning of the head office.

Investments in Operations are similar investments not intended for a specific plant, but relating to overall operations.

Projects not yet delivered, including land comprises all costs incurred for supra-municipal projects in progress. This includes projects in the design phase, projects for which tendering has taken place or projects already awarded. The costs incurred are mostly recorded under accounting category 27 – assets under construction and

advance payments – but also partly under accounting category 22 – land and buildings – for the land element. Assets under construction are not depreciated.

IN THOUSANDS OF EUROS	2016	2015
Projects not yet delivered in category 27	289,538	303,273
Projects not yet delivered in category 22	16,173	13,741
	305,711	317,014

The increase in tangible assets is due to a net growth of investments in the water treatment infrastructure, carried out on the instructions of the Flemish Region. In 2016, 101 investment and optimisation projects with a total contract value of 127 million euros were delivered. Within the Asset Management portfolio 16.1 million euros worth of replacement and modification investments were also made. Assets under construction decreased slightly by 5% in 2016 to 290 million euros. Although a number of investment projects which were submitted at the end of 2016 were not delivered until January and February 2017 – resulting in an increase in assets under construction at year-end – the substantial net fall in contract prices led to a decline in this item.

Assets under construction include all supra-municipal projects in progress, except for the land element.

Outside the Management Agreement, Aquafin has developed a further specific offer for towns, cities and municipalities. Several towns, cities and municipalities have outsourced the construction and maintenance of their sewers completely to Aquafin. Investments made in this context are shown under **municipal infrastructure**.

→ FINANCIAL FIXED ASSETS

IN THOUSANDS OF EUROS	2016	2015
Participating interest in Aquaplus	3,022	1,426
Other participating interests	100	100
Guarantees	13	13
	3,135	1,539

The financial fixed assets mainly consist of Aquafin's majority stake in Aquaplus. The valuation in Aquafin's books is adjusted annually based on Aquaplus' equity. In February 2016, Aquaplus carried out a capital increase of 1.5 million euros, partly to facilitate Aquaplus' capital contribution to Geo-Aquaplus of 750 thousand euros in April 2016.

→ STOCKS AND CONTRACTS IN PROGRESS

Towns, cities and municipalities can outsource sewerage tasks to Aquafin, which has developed a specific offer for this purpose. They can either enter into a concession arrangement directly or indirectly via one of the partnerships Aquafin has entered into with water-link (rio-link) and De Watergroep (Riopact).

Works in this context which have been started but not yet completed are included under *contracts in progress*.

→ AMOUNTS RECEIVABLE WITHIN ONE YEAR

As at 31 December 2015, overdue receivables from two water companies amounting to 10 million euros resulted in an exceptionally high outstanding balance. Due to the mismatch in timing between the payment of money from the MINA fund and Aquafin's invoicing of the water companies, the Office of Environment, Nature and Agriculture granted a deferral of payment and several of our invoices were paid late as a result of this liquidity shortfall. Since this situation did not arise at year-end 2016, outstanding trade receivables fell back to a normal level.

→ CURRENT INVESTMENTS AND CASH

At the end of 2015, the sum of 5,733 thousand euros in cash was invested in the short term in a time deposit account. Due to low interest rates, cash was not invested at the end of 2016.

→ DEFERRED CHARGES AND ACCRUED INCOME

IN THOUSANDS OF EUROS	2016	2015
Municipal projects	1,395	1,107
Purchases of Flemish Environment Agency assets with equity	18,089	15,003
Accrued interest - management of interest rate risk	10,868	10,331
Refinancing costs to be transferred	9,668	12,497
Accrued revenue	5,784	0
Other costs to be transferred	139	309
	45,943	39,247

Under the contracts with the municipalities, Aquafin assumes responsibility for transport services, for which a payment system can be designed at the request of the municipalities. The *municipal projects* item reflects the positive difference between depreciation on municipal projects and the repayment part of the underlying loans. This balances out charges and income in the interim.

The item *purchases of Flemish Environment Agency assets with equity* covers the composition of the receivable arising from assets acquired by Aquafin from the Flemish Environment Agency since 2010 (for more information, see under tangible assets). Aquafin finances these purchases partially with external funds and partially with equity. Purchases using equity are not rebilled to the water companies, but will be billed all at once should the Management Agreement - entered into on a rolling basis for 20 years - come to an end. The resulting receivable is increased annually by 1/20th of the acquisition price of the assets and recorded under accrued income.

Aquafin uses hedging instruments to hedge the interest rate risk on certain loans, in line with the policy approved by the Board of Directors. In order to enable the results of the hedging to be measured, a benchmark is set for each hedging strategy. If the interest charges for the benchmark are lower than the total of the interest charges for the underlying loan and the fixing of the associated hedging instruments, this difference is recorded as a financial charge. Since the interest rate is fixed six months before the payment date, so that the result of the hedging instrument is also known and recorded, pro-rata entry takes place at the time of arrangement under *accrued interest - management of interest rate risk*. The financial charges, which represent the difference between the interest charges for the loan and the benchmark and are recorded in the result as an interest correction for the management of the interest rate risk, are also recorded on a pro rata basis under deferred charges and accrued income.

The balance for *Refinancing costs to be transferred* relates to the remaining negative market value of a

hedging structure which Aquafin had to pay in 2013 following the counterparty's decision not to convert a swaption into a swap. The cost of the negative market value is spread over the term of the swap provided, i.e. over the period of 2013-2020. Consequently, part of the deferred charges are transferred to financial charges on a monthly basis. As at 31 December 2016, the remaining negative market value, not yet included in the result, amounted to 9.7 million euros.

The *Accrued revenue* includes 1,023 thousand euros for the profit for 2016 under a partnership for municipal sewerage activities between Aquafin and De Watergroep. There is also a sum of 4,760 thousand euros, representing income tax deducted at source resulting from research and development activities during the period of 2012-2014 to be claimed back.

→ EQUITY

The issued capital is unchanged from the previous financial year. As at 31 December 2016, it amounted to 248.4 million euros. As at 30 June 2016, as Aquafin's 100% shareholder, the Flemish Environmental Holding made a further payment of 37.5 million euros towards Aquafin's capital. The capital consists of 1,001,613 shares, which are unlisted.

The reserves consist of the legal reserve and the available reserves.

The legal reserve is topped-up annually until it reaches a level equal to 10% of the capital. In accordance with Article 319 of the Companies Code, 5% of the after-tax profit is added to the reserve annually.

If the General Meeting accepts the proposed appropriation of profits for the 2016 financial year, the legal reserve will be increased by 411 thousand euros to 13,353 thousand euros. The available reserves remain unchanged and amount to 8,600 thousand euros.

→ INVESTMENT GRANTS

In 1992, Aquafin received a notice from the Belgian Accounting Standards Board granting permission to interpret the investment grants item differently from the usual interpretation. This item reflects the difference between the repayment and depreciation periods for delivered supra-municipal projects. Since the rate of repayment for these projects does not always correspond exactly to the rate of depreciation, a mismatch arises between charges and related income. To clarify:

- during Aquafin's first few years, the construction engineering element of investment projects was repaid over 15 years and depreciated over 33 years. In accordance with Addenda 5 and 6 to the Management Agreement, since 2009, the repayment term has been 30 years, while the depreciation period remains at 33 years
- the land acquired by Aquafin is not depreciated and is repaid immediately.



The water treatment process is adapting more and more to a circular economy. We recover energy and raw materials from it.

IN THOUSANDS OF EUROS	2016	2015
Remunerations - land	80,445	76,906
Remunerations - construction engineering	678,892	690,737
Remunerations - electromechanics	24,868	22,083
Remunerations - easements	9,062	8,755
Remunerations - Flemish Environment Agency assets	20,817	15,343
Remunerations - other	4,071	3,187
	818,155	817,011

→ PROVISIONS FOR LIABILITIES AND CHARGES

The main changes in the provisions for liabilities and charges can be broken down into those for legal disputes and those for supra-municipal project costs.

IN THOUSANDS OF EUROS	2016	2015
Bridging pensions	835	941
Legal disputes	607	1,066
Insurance claims	6	30
Supra-municipal project costs	2,188	1,393
Sludge buffers	225	129
	3,861	3,559

Provision is made for *legal disputes* based on a reasonable estimate of the claim where it is probable that Aquafin may lose the case. As at 31 December 2016, the provision for legal disputes amounted to 607 thousand euros for 131 disputes. In 2016, we recorded 31 new cases and 30 files could be closed.

The provision for *supra-municipal project costs* relates firstly to the deduction of project costs on delivery (+ 1,307 thousand euros) and secondly to the deduction of project costs recorded after delivery (- 511 thousand euros).

We also refer in this connection to the notes on *main risks and uncertainties* elsewhere in this annual report.

→ AMOUNTS PAYABLE AFTER MORE THAN ONE YEAR, INCLUDING THE CURRENT PORTION

An additional sum of 115 million euros was allocated in 2016 to finance our supra-municipal investment expenditure, whose repayment by the water companies is spread. The resulting ratio, in which the remaining claims against the water companies are set against allocated bank borrowings, stands at 1.19 at the end of the current financial year.



A payment system can be designed at the request of the municipalities with regard to our municipal activities. A loan for 964 thousand euros for a new project to be financed in Kapellen was also taken out during 2016.

IN THOUSANDS OF EUROS	2015	NEW LOANS	REPAYMENTS	2016
Bank borrowings - allocated	1,679,925	115,000	-148,282	1,646,643
Bank borrowings - general purpose	207,265			206,949
- <i>LT commercial paper</i>	110,000			110,000
- <i>Purchase of building at Dijkstraat 8 - Aartselaar</i>	7,265		-316	6,949
- <i>Other loans</i>	90,000			90,000
Bank borrowings - municipal activities	27,401	964	-1,863	26,502
	1,914,591	115,964	-150,145	1,880,094

→ FINANCIAL DEBTS PAYABLE WITHIN ONE YEAR

IN THOUSANDS OF EUROS	2016	2015
Commercial paper	201,500	209,500
Credit lines	6,369	8,190
Fixings - management of interest rate risk	12,486	10,904
	220,355	228,594

The short-term financing was used primarily to fund work in progress before delivery. Under the commercial paper programme worth 500 million euros, 201.5 million euros worth was drawn down. Only 6.4 million euros was drawn down under existing credit lines worth

485 million euros – including the syndicated loan and credit lines from the municipalities.



For the purpose of the management of the interest rate risk, fixing always takes place six months before the payment date. During this period, the balance of debts and receivables with respect to our counterparties resulting from these fixings is recorded as a short-term financial debt.

→ **TRADE DEBTS**

IN THOUSANDS OF EUROS	2016	2015
Supplier debts	28,260	26,230
Invoices to be received	33,281	26,534
Credit notes to be prepared - water companies	10,723	8,684
Other	1,535	508
	73,799	61,956

The rise in *supplier debts* is in line with the constant increase in business activity but is also determined by the timing of invoicing by and payment to our suppliers.

Estimates of goods and services already supplied but not yet billed are also included under this heading as *invoices to be received*. The increase in this item is mainly attributable to the partial rebilling by the Brussels Water Authority (BMWV/SBGE) to Aquafin of a settlement agreed between Aquiris and the Brussels Water Authority amounting to 4,158 thousand euros, as part of the settlement of a dispute concerning water treatment in the Brussels Region.

Credit notes to be prepared - water companies relate to Aquafin's operating costs: head office expenses, costs of operations, financing costs and costs relating to the contract with the Brussels Water Authority. Based on the annual budget for operating costs agreed with the Flemish Region, advance invoices are sent to the water companies on a quarterly basis. The difference between the actual operating costs and the advances invoiced are recorded at year-end as a credit note to be prepared. The increase in the credit note to be prepared is attributable to the income tax deducted at source recovered for research and development activities. This exceptional income relates to income tax deducted at source for the 2012, 2013 and 2014 financial years.

→ ADVANCES RECEIVED ON CONTRACTS IN PROGRESS

Rebilling for services provided by Aquafin for municipal customers which are not yet completed are included under the heading of *advances received on contracts in progress* and evolve along the same lines as contracts in progress.

→ TAXES, REMUNERATION AND SOCIAL SECURITY

Outstanding liabilities with respect to taxes relate to unpaid corporate tax, regional, provincial and municipal taxes and levies.

Due to lower notional interest relief on the one hand and higher non-deductible expenses in relation to environmental tax on the other, we expect an increase in corporate tax owed.

Taxes, remuneration and social security mainly relates to the provision for holiday allowance.

→ OTHER AMOUNTS PAYABLE

The dividends payable are recognised here.

If the General Meeting approves the proposed appropriation of profits, a gross dividend of 7,788 thousand euros will be paid to the Flemish Environmental Holding on 24 April 2017.

→ ACCRUED CHARGES AND DEFERRED INCOME

IN THOUSANDS OF EUROS	2016	2015
Accrued interest on loans	7,651	8,791
Accrued interest - management of interest rate risk	2,798	2,700
Other accrued interest on loans	178	389
	10,627	11,880

The interest on both our short and long-term finance is allocated to the relevant financial year on a pro rata basis at the time of arrangement. The amount of this has fallen substantially compared with the end of 2015 due to lower interest rates.

Transactions relating to the hedging of interest rate risks for the future period are also recorded under accrued charges and deferred income. Aquafin uses hedging instruments in particular to hedge the interest rate risk on certain loans. In order to enable the results of

the hedging to be measured, a benchmark is set for each hedging strategy. If the interest charges for the benchmark are higher than the total of the interest charges for the underlying loan and the fixing of the associated hedging instruments, this difference is recorded in a revenue account. Since the interest rate is fixed

six months before the payment date, so that the result of the hedging instrument is also known and recorded, pro-rata entry takes place at the time of arrangement under *accrued interest - management of interest rate risk*.





With asset management we ensure that our infrastructure keeps working optimally.