

NOTES ON THE INCOME STATEMENT

The Management Agreement with the Flemish Region stipulates that Aquafin's remuneration is based on the rebilling of all reasonable costs, plus remuneration for the shareholder(s) based on the contribution to the company's equity. This means that charges and income broadly mirror one another.

On 7 June 2013, the Flemish Government approved a new budget model, whereby Aquafin's budget for operating costs for activities falling under the Management Agreement was made dependent on a series of packages, the assets and the pollution load treated. Therefore, as from the 2014 financial year, the Flemish Government no longer intends to remunerate Aquafin based on the rebilling of all reasonable costs as specified in the Management Agreement, but according to the ser-

vices provided – as defined in the new budget model – known as the performance budget, where the result of the outcome of the formula is considered reasonable. This performance budget actually relates to head office overheads and operating costs of the operating assets.

Pending the calibration of the performance budget in the spring of 2017, when all parameters will be finalised, for the time being, provision will be made for the difference between the actuals and the performance budget for the period of 2014-2016 in the form of a credit note to be prepared for the drinking water companies.

→ TURNOVER

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|----------------|----------------|
| Supra-municipal activities | 431,590 | 421,303 |
| <i>Rebilling - investment costs</i> | 151,907 | 148,284 |
| <i>Rebilling - operating costs</i> | 179,380 | 174,672 |
| <i>Rebilling - interest charges</i> | 75,832 | 78,789 |
| <i>Remuneration - equity</i> | 12,271 | 11,014 |
| <i>Contracts - Brussels Water Authority</i> | 12,249 | 8,446 |
| <i>Contracts - industry</i> | -49 | 98 |
| Correction to invoicing of investment costs after depreciation | 2,161 | -2,004 |
| Municipal activities | 41,871 | 43,402 |
| Other | 1,247 | 1,573 |
| | 476,869 | 464,274 |

Aquafin achieves the majority of its turnover from supra-municipal activities under the Management Agreement with the Flemish Region. Article 43 of the Management Agreement stipulates that Aquafin is entitled to remuneration from the Flemish Region. Within this remuneration, a distinction can be made between payments relating to construction activities and payments relating to services, which, in view of the constantly growing activities, evolve along the same lines. Payments for construction activities – investment costs – concern repayment for the sewage treatment infrastructure delivered. The repayment terms for this infrastructure take the expected life of the underlying assets into account. Remuneration for services mainly concerns the rebilling of operating expenses for head office and operations and interest charges, plus a payment for equity, as stipulated in the Management Agreement. This remuneration for equity – the equity remuneration – is designed, with due regard for the risks taken, to ensure a minimum acceptable return for the shareholder(s).

Turnover also includes the rebilling of charges made for the clean-up of cross-regional waste water by the Brussels Region, via the Brussels Water Authority.

The turnover invoiced is spread between the various Flemish drinking water companies, based on an allocation formula agreed annually with the Flemish Environment Agency.

Due to a timing difference between the depreciation and rebilling of supra-municipal investments – as explained under the *investment grants* item – a correction is made to the result in order to bring the depreciation into line with the related turnover.

Services rendered by Aquafin to the municipalities not covered by the Management Agreement resulted in a turnover of almost 42 million euros and a profit of 1,076 thousand euros for 2016. The drop in turnover compared with the previous financial year is due to the slight decline in project deliveries for municipal investments. These project deliveries fluctuate from year to year. The remaining turnover largely consists of rebilling for services to Aquaplus.



→ **CHANGE IN STOCKS OF FINISHED GOODS, WORK AND CONTRACTS IN PROGRESS**

This item reflects the change in the item *stocks and contracts in progress* on the asset side of the balance sheet, current period versus previous period.

| IN THOUSANDS OF EUROS | 2016 | 2015 | CHANGE |
|---|---------------|---------------|--------------|
| Capitalised personnel costs | 10,511 | 8,942 | 1,569 |
| Capitalised other costs | 85,759 | 86,116 | -357 |
| Work in progress included in the result | 2,865 | 2,766 | 99 |
| | 99,135 | 97,824 | 1,311 |



→ **OTHER OPERATING INCOME**

This mainly relates to recovery of costs that cannot be treated as part of normal sales.

Examples of this include rebilling to third parties of costs of incidents, income from green power certificates, recovery of costs relating to research projects, etc.

The substantial increase in this item is attributable for the sum of 4,760 thousand euros to the income tax deducted at source recovered for research and development activities. This income relates to income tax deducted at source for the 2012, 2013 and 2014 financial years.

→ RAW MATERIALS, CONSUMABLES AND GOODS FOR RESALE

The main items under this heading are broken down below.

| IN THOUSANDS OF EUROS | 2016 | |
|--|----------------|-----|
| Electricity costs for operating activities | 33,621 | 32% |
| Costs of removal of sludge, sand and screenings | 23,951 | 22% |
| Operation by the Brussels Region | 12,249 | 12% |
| Mechanical, electrical and architectural maintenance | 12,018 | 11% |
| Chemicals for water and sludge treatment | 11,290 | 11% |
| Other | 13,378 | 13% |
| | 106,507 | |

The general increase of 10 million euros compared with the previous financial year is in line with the growth of the infrastructure operated and developed by Aquafin, at both municipal and supra-municipal level.

There are also a number of exceptional factors which intensify this increase:

- new or higher taxation in the form of environmental tax, kilometre-based charge for trucks and energy taxation
- impact of the heavy rainfall in the first half of 2016 on operating costs
- historical regularisation concerning cross-regional waste water treatment between the Flemish Region (via Aquafin) and the Walloon Region (via Ipalle)
- extra costs rebilled by the Brussels Water Authority under a settlement with Aquiris, of which the sum of 4,158 thousand euros falls to Aquafin.

→ SERVICES AND OTHER GOODS

This item rose slightly compared with previous years.

The heading covers costs relating to building maintenance, office and ICT costs, car fleet costs, fees, training costs, etc. This heading also covers engineering company and construction engineering costs in the context of municipal activities.

→ **REMUNERATION, SOCIAL SECURITY COSTS AND PENSIONS**

The increase in personnel costs is due to the growing workforce and is therefore in line with the growth of the infrastructure operated and developed by Aquafin, at both municipal and supra-municipal level. The tax shift applying as from 1 April 2016 will result in a reverse change in employers' social insurance contributions.



| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---------------|---------------|
| Salaries and direct social benefits | 50,170 | 48,101 |
| Employer's social insurance contributions | 14,268 | 14,551 |
| Employer's premiums for non-statutory insurance | 3,344 | 3,190 |
| Other personnel costs | 2,662 | 2,620 |
| | 70,444 | 68,461 |



→ **DEPRECIATION AND OTHER AMOUNTS WRITTEN OFF FORMATION EXPENSES, INTANGIBLE AND TANGIBLE FIXED ASSETS**

The constant growth in assets also explains the continuous increase in depreciation.

→ **AMOUNTS WRITTEN DOWN ON STOCKS, CONTRACTS IN PROGRESS AND TRADE DEBTORS – PROVISIONS FOR LIABILITIES AND CHARGES**

The table on p. 41 shows the connection with changes to the related balance sheet accounts. The main changes have already been explained in the notes to the balance sheet items.

Amounts written down stocks, contracts in progress and trade debtors

| IN THOUSANDS OF EUROS | 2016 | 2015 | CHANGE |
|------------------------------------|------|------|--------|
| Receivables - Management Agreement | 100 | 137 | -37 |
| Receivables - municipal activities | 92 | 117 | -25 |
| Receivables - industry | 244 | 418 | -174 |
| | 436 | 672 | -236 |

Provisions for liabilities and charges

| IN THOUSANDS OF EUROS | 2016 | 2015 | MUTATIE |
|-------------------------------|-------|-------|---------|
| Bridging pensions | 835 | 941 | -106 |
| Legal disputes | 607 | 1,066 | -459 |
| Insurance claims | 6 | 30 | -24 |
| Supra-municipal project costs | 2,188 | 1,393 | 795 |
| Sludge buffers | 225 | 129 | 96 |
| | 3,861 | 3,559 | 302 |

→ OTHER OPERATING CHARGES

This heading mainly covers indirect taxation and taxes at regional, provincial and municipal level.

In line with the purchases of Flemish Environment Agency assets in previous years, there is a systematic increase in property tax due.

→ FINANCIAL CHARGES AND INCOME

This heading covers charges on short and long-term finance and charges and income relating to active interest rate management.

A lower financing requirement combined with current favourable short and long-term market interest rates is having a significant impact on debt charges. Aquafin aims to

optimise financial charges by active management of the interest rate risk.

→ EXTRAORDINARY INCOME

This comprises the recovery of part of the reduction in value recorded in the past for the participation in Aquaplus, following Aquaplus' positive result in 2016.

→ INCOME TAXES

The increase in the estimated corporate tax is partly due to the reduced notional interest deduction. It is also due to an increase in estimated non-deductible expenses, especially the rise in Flemish environmental tax on sludge treatment.