

Annual Report

from the Board of Directors to the partners on
the 2017 Annual Accounts





2017 | Financial Annual Report | Board of Directors 30 March 2018

The present report provides an explanation of the 2017 accounts and the various movements in the balance sheet and the income statement, so that they can be placed in their proper context.

To improve readability, the amounts in some of the overviews are shown in x 1,000 euros. It is always indicated whether the amounts are shown in € or in x € 1,000.

Introduction

A number of important events have a visible impact on the accounts and their presentation:

- Increase in **turnover**:
 - Based on the submitted tariff plan, the WaterRegulator approved the drinking water tariffs to be applied for 2017 on 22-12-2016. These tariffs increased on average by 16%, including indexation. They will remain unchanged over the next six years, as approved by the WaterRegulator on 10 May 2017, except for the permitted indexation.
 - The number of billed m³ increased by 2.5%, due to the prolonged dry period over 2016-2017.
- In the course of 2017, the impact of the **phosphate accumulated over time in the sludge of the reservoirs** became clear: an in-house study, backed up by measurements of VITO, shows that the phosphate deposited in the sludge has a great impact on the operations of the water extraction due to the large algae bloom that is caused by the phosphate. Measures to curb the supply of phosphate will not be effective so long as the internal source of phosphate is not addressed. That is why we decided to clear this sediment in the years to come, for which purpose we have earmarked a provision of 9.5 million euros in the current financial year.
- Produced fixed assets declined due to an **amendment of the valuation rules**: indirect production costs are no longer included in the manufacturing price. This has an impact of -8.3 million euros compared to the situation of the previous financial year.
- Despite major communication efforts and extensive press coverage, only a fraction of the **guarantees** received for home connections, as practised in the past, was paid back. The balance was recognised in income via a single entry.
- As a courtesy to our customers, **public drinking water fountains** will be installed on the territory of each of our municipal partners in the course of the following years. For this purpose, a provision was made and charged to the current financial year.
- The carrying value of tangible fixed assets increased by 8.3 million as a result of the boosted **investment programme**, mainly for pipes and sewers. In addition, many more large projects were commissioned, meaning that their depreciation period has started .

These and other issues will be discussed in detail in the remainder of the annual report.

The annual accounts of De Watergroep over the financial year ending 31 December 2017, closed with a balance sheet total of 1,585 million euros and a profit of 31.7 million euros.

The positive result has an impact on the cash position. Cash and cash equivalents have increased by 17.4 million euros. This is because the operating cash flows are substantially greater than the investment cash flows. The cash flows are shown in the following table.

CASH FLOWS 2017 – expressed in x 1000 euros		
Profit	9905	31,726
Depreciations	63	97,225
Provisions and impairments	16	13,077
Receivables at more than one year	29	-1,021
Trade receivables	40, 41, 490/1	-313
Trade accounts payable	44, 46, 45, 47/48, 492/3	-6,765
Stocks	3	-350
Operating cash flows		133,579
Intangible fixed assets	21	3,360
Tangible fixed assets	22/27	-8,305
Financial fixed assets	28	-22
Depreciations		-97,225
Investment cash flow		-102,192
Liabilities due at more than one year	17	-13,276
Liabilities due within one year	42, 43	330
Capital / Capital subsidies	10, 15	-1,034
Financial cash flow		-13,980
CASH FLOW		17,408

Discussion of the 2017 Annual Accounts

THE BALANCE SHEET

The balance sheet total has increased by 24 million euros.

The change in the balance sheet total is mainly attributable to the events discussed above.

BALANCE SHEET 2017 – expressed in x 1,000 euros									
ASSETS	Code	2016	2017	<> 2016	LIABILITIES	Code	2016	2017	<> 2016
Fixed Assets	21/28	1,350,529	1,355,496	4,967	Shareholders' equity	10/15	1,096,102	1,126,794	30,692
Intangible fixed assets	21	24,017	20,656	-3,360	Capital	10	662,389	662,389	0
					Revaluation gains	12	137,427	127,677	-9,750
Tangible fixed assets	22/27	1,314,647	1,322,952	8,305	Reserves	13	122,467	155,554	33,088
Land and buildings	22	250,498	258,120	7,622	Profit/loss carried forward	14	71,610	79,998	8,388
Installations, machinery and equipment	23	871,880	886,909	15,029	Capital subsidies	15	102,211	101,177	-1,034
Furniture and rolling stock	24	5,512	6,203	691	Provisions and deferred taxes	16	7,605	20,683	13,077
Assets under construction and advance payments	27	186,757	171,719	-15,038	Liabilities	17/49	457,288	437,577	-19,711
Financial fixed assets	28	11,866	11,888	23	Liabilities due at more than one year	17	253,679	240,402	-13,276
Current assets	29/58	210,467	229,558	19,091	Financial liabilities	170/4	250,064	240,402	-9,662
Receivables at more than one year	29	0	1,021	1,021	Advance payments of orders	176	3,614	0	-3,614
Stocks and orders in progress	3	5,304	5,654	350	Liabilities due within one year	42/8	188,085	176,291	-11,795
Receivables due within one year	40/41	156,094	157,169	1,075	Liabilities +1y due within one year	42	20,181	20,511	330
Trade receivables	40	106,242	111,786	5,544	Trade payables	44	108,330	102,065	-6,265
Other receivables	41	49,852	45,383	-4,469	Advance payments received	46	37,484	31,348	-6,137
Investments	50/53	29,003	51,941	22,939	Liabilities relating to taxes, remuneration and social security	45	9,885	7,661	-2,224
Cash and cash equivalents	54/58	17,295	11,765	-5,531	Other liabilities	47/48	12,204	14,705	2,501
Accruals and deferrals	490/1	2,770	2,008	-762	Accruals and deferrals	492/3	15,524	20,884	5,360
Total ASSETS	20/58	1,560,996	1,585,054	24,058	Total LIABILITIES	10/49	1,560,996	1,585,054	24,058

21 Intangible fixed assets (- 3.4 million euros)

This decrease was due to the heavy investments in the new ERP in the previous years. These investments are depreciated over 3 years.

22/27 Tangible fixed assets (+ 8.3 million euros) – 46 Advance payments (- 6.1 million euros)

The carrying amount of tangible fixed assets increased by 8.3 million euros.

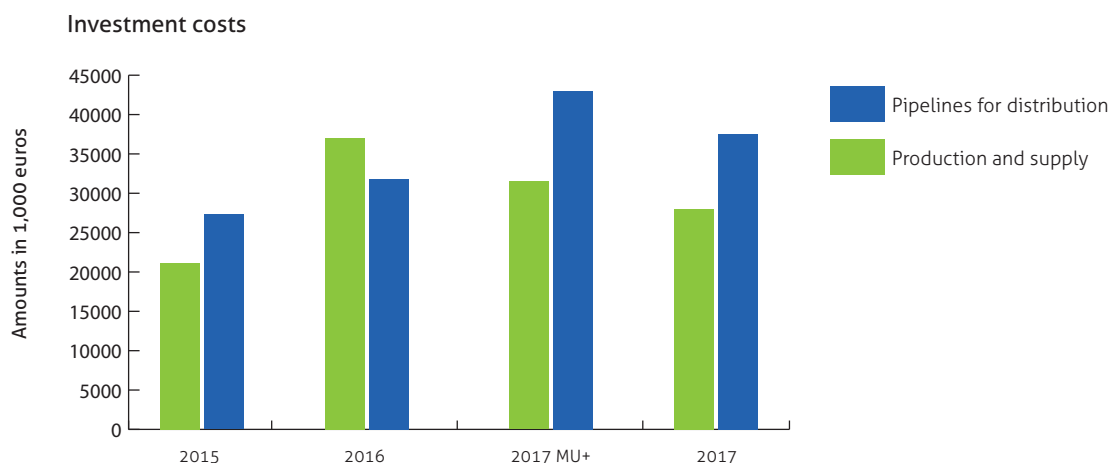
In drawing up the plan for the future, an ambitious **investment plan** was developed. To continue to ensure the quality and the quantity of the drinking water in the future, heavy investments will have to be made in the drinking water infrastructure in the coming years. For production and supply, the plan focuses on renovation and source protection; for distribution, the timely replacement of ageing pipelines is planned.

The increase in property, plant and equipment is therefore mainly attributable to the implementation of this plan.

In 2017, 28 million euros were spent on investments in production and supply. The lower investment expenditure, compared with 2016, is attributable, on the one hand, to the stoppage of the construction works at the De Blankaart water production centre following the bankruptcy of the contractor involved (reduction in expenditure of 5 million euros in 2017). On the other hand, 3 planned projects (water production centres Vilvoorde and Bilzen, the EMU in water production centre Ossenweg) could not be started up because of problems with licences and with the contractor.

Investment expenditure for distribution pipelines rose to 37 million euros.

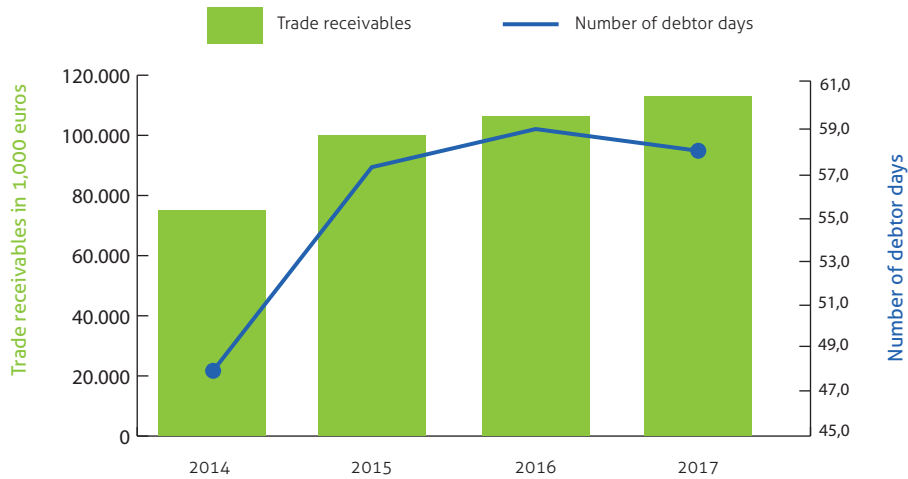
The following table shows the evolution of the investment expenditure. This expenditure includes funding provided by third parties. It should also be noted that as from 2017 a mark-up is no longer entered. For a consistent comparison with the previous years, a virtual mark-up has been added (2017 MU+).



Since the ERP was introduced in the middle of 2015, all investment projects can now be followed up financially within a single system. At the start-up there were some delays the administrative follow-up, which led to a backlog in the settlement of work in progress. In the course of 2017, special focus was given to the optimisation of the entire process and the elimination of this backlog. This is also shown by the decrease in assets under construction (code 27) by 15 million euros and the decrease in received advance payments (code 46) by 6 million euros.

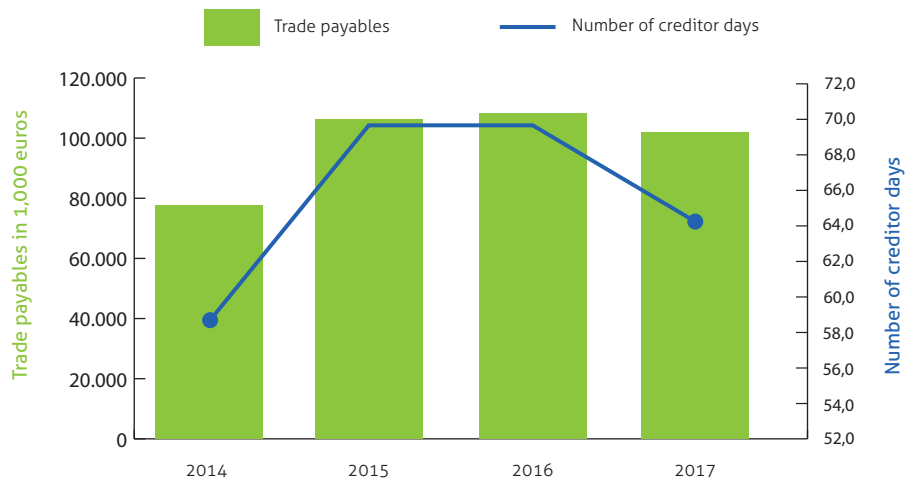
40 Trade receivables (+ 5.5 million euros) – 44 Trade payables (- 6.3 million euros)

Outstanding **trade receivables** increased by 5.5 million euros as compared to end 2016. This is mainly attributable to the increase in turnover, partly as a result of an increase in the drinking water tariffs by approximately 16% incl. indexation, the indexation of the sanitation tariffs, and the increase in the number of billed m³ by 2.5%.



Trade payables decreased by 6.3 million euros.

In 2016, in the context of the budget neutrality of the turnover, a total amount of 4.6 million euros in credit notes was issued as an adjustment to the charged capacity fee, which had an impact on the outstanding trade liabilities of the relevant financial year. These credit notes were settled in the course of 2017.



The number of days of customer credit (57) is still below the number of days of supplier credit (64), which has a positive impact on the liquidity of the company.

10 Capital

The capital did not change in the course of 2017.

12 Revaluation gains (- 9.8 million euros) – 13 Reserves (+ 33.1 million euros)

To provide a more accurate picture of the capital of the company, the drinking water take-off points were capitalised in 2012. The revaluation of the take-off points dating from before 2012 was processed via equity (code 12). Pursuant to article 57(3)(1) of the Companies Code, the revaluation gain (code 12) is, up to the amount of the depreciation on the gain (9.8 million euros) transferred to the available reserves (code 13). The Accounting Standards Commission recommends this transfer because it provides a more accurate picture of the company's assets position. The balance of the revaluation gain on the take-off points amounted to 127.7 million euros on 31-12-2017.

Following the appropriation of the result, an amount of 23.3 million euros, the result of the drinking water activity, was allocated to an unavailable reserve.

14 Profit/loss carried forward (+ 8.4 million euros)

The result of the sewer activity and of the Industry & Services BU was added to profit/loss carried forward.

16 Provisions and deferred taxes (+ 13.1 million euros)

Two major movements occurred:

- Provisions for major repair and maintenance works increased by 8.7 million euros.
The most significant impact is that of an additional provision of 9.5 million euros for the sludge removal from the major reservoirs (reservoirs 1 & 2 of Kluizen and the reservoir of De Blankaart) of De Watergroep. It has been established that phosphate, as a nutrient for phytoplankton, has an important impact on the operational management of the surface water extractions. An increase in phosphate leads to accelerated algae bloom, which causes problems in various phases of the purification process of the water production centre.
 - During the flocculation step, algae bloom leads to problems with flocculation, requiring the addition of high doses of chemicals. The chemicals used are FeCl (De Blankaart) and AlCl (Kluizen), which, in the case of large algae bloom, may lead to standard exceedances of iron and/or conductivity in the pure water.
 - Not all algae are removed during the flocculation process, residual algae will subsequently cause clogging and breakdown of the sand filters (iron, manganese, etc.). This will also lead to accelerated reactivation of the activated carbon filters and excessive turbidity in the pure water.
 - Finally, some phytoplankton species produce dangerous toxins or cause quality issues such as odours.

According to a study carried out in the course of 2017, the impact of these phosphates can only be controlled by dephosphatation on the water intake. Also when no water is taken in, an increase in phosphates, and therefore in algae bloom, is observed under certain conditions. This increase is caused by the remobilisation of phosphates that are present in the historically contaminated sludge on the bottom and the dikes of the reservoir. As a result, measures aimed at curbing the supply of phosphate will not be effective so long as the internal source of phosphate is not addressed. To ensure proper and efficient water extraction in the long term, both a dephosphatation installation will have to be built on the intake canal and the sludge with the associated phosphates removed.

Based on an available reference point, the cost per m² for the sludge removal was estimated. This cost was applied to the 3 impacted reservoirs and to the total surface area: both the bottom and, where appropriate, the dikes. This yielded a total cost of almost 28 million euros.

The sludge removal is scheduled to start at the end of 2019 or beginning of 2020, so that a provision for one-third of this cost was already included in the 2017 accounts.

- Provision for other risks and costs increased by 4.4 million euros, and is attributable to:
 - Provision of 0.8 million euros for the cost impact of the collective bargaining agreement 2017-2018 on the accounts of financial year 2017,
 - Provision of 3.6 million euros for the installation of drinking water fountains on the territory of each of our municipal partners.

170/174 -42 -43 Financial liabilities (- 9.3 million euros)

In 2017, loans for a total amount of 19.3 million euros were repaid. A new loan of 10 million euros was contracted from BNP Paribas Fortis.

176 Advance payments on contracts in progress (- 3.6 million euros)

These are guarantees that were issued in the past (1950-1993) for new service lines.

No register has ever been maintained of these guarantees, the main condition for repayment was presentation of the relevant receipt. In the course of 2017, we proceeded with the early repayment of these guarantees.

Despite major communication efforts, including a folder that was attached to the invoice, and the extensive press coverage, only part of the received guarantees was repaid. The balance was written off and recognised in income via a single entry, see also 76 Non-recurring operating income.

THE INCOME STATEMENT

De Watergroep closes its income statement for the financial year 2017 with a **profit of 31.7 million euros**.

OPERATING RESULTS

De Watergroep achieved an operating profit of 30.7 million euros. This is obviously the result of movements on several items.

INCOME STATEMENT 2017 – expressed in x 1,000 euros	Code	2016	2017	<> 2016
OPERATING INCOME	70/76A	662,967	703,064	40,097
Turnover	70	567,050	613,983	46,933
Drinking water		225,612	263,534	37,922
Fixed charge drinking water		37,321	41,244	3,922
Consumption drinking water		182,379	215,586	33,207
Capacity fee		5,911	6,704	794
Sanitation		307,714	316,749	9,035
Sanitation charge/fee		295,756	305,942	10,185
Collection fee sanitation (admin. fee)		11,958	10,808	-1,150
Other turnover		33,725	33,699	-25
Water supplies to third parties		8,064	9,378	1,314
Other water supplies (industrial water, grey water, etc.)		2,713	2,819	106
Services take-off points (installation and repair water meters, etc.)		6,470	6,011	-460
Inspections		1,955	2,764	809
Sewers		11,295	10,067	-1,228
Other turnover		3,227	2,660	-566
Stock of work in progress	71	-519	-210	309
Produced fixed assets	72	15,422	7,032	-8,390
Other operating income	74	80,311	78,094	-2,217
Mina fund operating subsidy		61,392	57,438	-3,954
Debt monitoring		6,878	7,162	284
Recovered costs		8,421	10,059	1,638
Miscellaneous operating income		3,620	3,435	-186
Non-recurring operating income	76A	703	4,165	3,462
OPERATING EXPENSES	60/66A	-639,093	-672,384	-33,291
Goods for resale, raw materials and supplies	60	-6,263	-6,581	-318
Services and miscellaneous goods	61	-436,715	-446,913	-10,198
Sanitation costs		-343,126	-348,284	-5,157
Other services and miscellaneous goods		-93,589	-98,630	-5,041
Water for resale		-26,141	-28,999	-2,858
Contractors		-17,251	-17,971	-719
Chemical products		-4,363	-4,753	-389
Electricity		-9,337	-9,289	48
Maintenance infrastructure		-5,490	-5,797	-307

IT		-9,008	-8,709	299
Postage costs		-4,784	-4,870	-86
Vehicles		-2,726	-2,759	-33
Other services and miscellaneous goods		-14,488	-15,483	-994
Remuneration, social security and pensions	62	-101,395	-103,276	-1,881
Remuneration and social security		-76,782	-75,427	1,356
Pension contributions		-22,915	-23,999	-1,085
Other personnel costs		-1,698	-3,850	-2,152
Depreciations and impairments on fixed assets	630	-77,427	-81,923	-4,497
Impairments on stocks and trade receivables	631/4	-1,104	-2,224	-1,120
Provisions for risks and expenses	635/7	-628	-13,077	-12,450
Other operating expenses	640/8	-15,528	-18,319	-2,791
Tax water supplies and surface water		-8,892	-8,670	222
Demolition		-822	-1,569	-747
Losses on trade receivables		-3,930	-3,974	-45
Miscellaneous operating expenses		-1,884	-4,106	-2,222
Non-recurring operating expenses	66A	-33	-70	-37
OPERATING RESULTS (incl. non-recurring operating expenses/income)		23,875	30,681	6,806

70 Turnover (+ 46.9 million euros)

Drinking water (+ 37.9 million euros)

The table below presents an overview of **turnover from water sales** and its evolution as compared to 2016:

	Real. 2016	Real. 2017	<-> 2016	% 2016
Drinking water	225,612	263,534	37,923	116.8%
Fixed charge drinking water	37,321	41,244	3,922	110.5%
Consumption drinking water	182,379	215,586	33,207	118.2%
Capacity fee	5,911	6,704	794	113.4%

- Turnover from fixed charges increased by 3.9 million euros. This is due to the abolition of the cut-off following the amendment of the valuation rules from 1-1-2017. For financial year 2016, this turnover was affected by the cut-off of both 2015 and 2016, whereas for financial year 2017 only the cut-off of end 2016 was reversed.
- Turnover from capacity fees rose by 0.8 million euros, which is due to the fact that in 2016 an amount of €819K was still entered as rent for large water meters on another account. This rent was incorporated into the capacity fee.
- Turnover from drinking water consumption increased by 33.2 million euros as compared to 2016. This is due, on the one hand, to the tariff increase (incl. indexation) of approximately 16%. These tariffs will remain constant over a period of 6 years, except for the permitted indexation. On the other hand, there was an increase in the number of billed m³ drinking water by 2.5% as a result of the dry period in 2016-2017.

Based on the division into customer groups, this increase is fully borne by companies. Large companies in the food processing sector even account for half of the increase (1.5 million m³). This is due to the effect of the prolonged dry period in 2016/2017 and the upswing in economic activity.

The billed number of m³ for private individuals remains virtually equal to 2016: +0.03%

CONSUMPTION x 1000 m ³	2016	2017	<-> delta m ³	% 2016
Private individuals	81,112	81,138	25	0.03%
Legal entities / Companies	39,572	42,975	3,403	8.60%
Public authorities and institutions	1,857	1,844	-14	-0.74%
Municipalities - partners	1,571	1,227	-344	-21.88%
Other	316	393	77	24.33%
GRAND TOTAL	124,429	127,576	3,147	2.53%

Sanitation (+ 9 million euros)

	Real. 2016	Real. 2017	<-> 2016	% 2016
Sanitation	307,719	316,751	9,032	102.9%
Sanitation charge/fee	295,761	305,943	10,182	103%
Collection fee sanitation (admin. fee)	11,958	10,808	-1,150	90%

Since 2005, drinking water companies have been responsible not only for the production and supply of drinking water, they have also been required by decree to sanitise the water supplied to customers. To recover the costs of drainage and treatment, customers are charged a **sanitation fee**. This charge is included in the water bill as part of the total price for the supply of water. Through the water bill, the consumer pays both for the production and supply of the drinking water and for the drainage and treatment of the waste water. Private water producers are charged a fee as contribution towards the sanitation cost.

In **2017**, the **unit rate of the sanitation charge/fee was increased** was indexed at 1.77%. This indexation, together with the increase in billed m³, explains the 10.2 million increase in charges/fees as compared to 2016.

Billing of the sanitation charge by the drinking water company entails costs. These are, on the one hand, administrative costs (customer management and billing) and, on the other hand, the risk of non-collection of the billed charges (*i.e. the default risk*). To cover these costs, each Flemish drinking water company is entitled to a **collection rate** of the billed charges (hereinafter called the administrative fee). In 2017, these were reduced from 4% in 2016 to 2.74% for sanitation and 3.75% for discharge. This is the result of the request from the Flemish Minister for Environment, Nature and Agriculture in her letter of 3 October 2016 to reduce the operating subsidies.

Other turnover (+ 0.0 million euros)

Although the total other turnover in 2017 is virtually equal to that of 2016, there are a number of important underlying movements.

In 2017, turnover from **water supplies to third parties** was 1.3 million euros *higher* than in 2016. This is due to the increase in water sales to other drinking water companies, in particular to TMVW in connection with Aquaduct. Here, too, we see the effect of the prolonged dry period in 2016/2017 and the upswing in economic activity.

Turnover sewers, by contrast, was 1.3 million euros lower than in 2016, mainly because a number of major investment projects had been billed in 2016.

For both explanations, the same phenomenon occurs on the cost side.

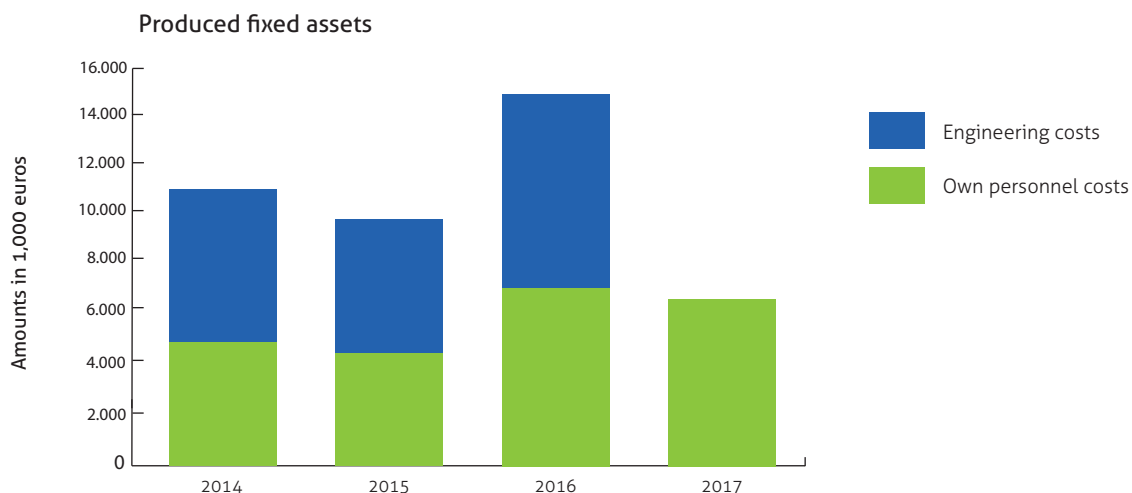
72 Produced fixed assets (- 8.4 million euros)

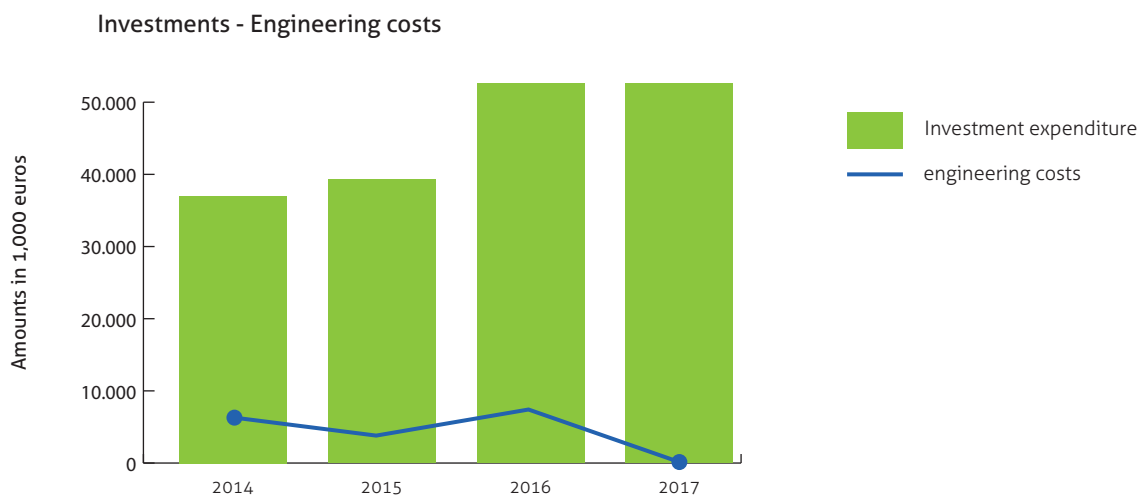
Produced fixed assets decreased by 8.4 million euros.

This is almost entirely attributable to the amendment of the valuation rules, as a result of which indirect production costs are no longer included in the manufacturing price of investment projects.

The justification for this amendment is that, since the start-up of the new ERP in the course of 2015, the direct costing model is used to steer and monitor investment projects, and pipeline projects in particular. In practice, this means that both the prior evaluation, the budgeting and the project follow-up and post-costing is always based on directly allocatable costs such as contractor costs, material costs and own personnel costs. It is therefore indicated that for determining the manufacturing price in the future, only the direct production costs are taken into account.

This has an effect of -8.4 million euros compared to the previous financial year. The other produced fixed assets are at the level of the previous financial year.





74 Other operating income (- 2.2 million euros)

The **MINA fund operating subsidy** decreased by 3.9 million euros.

The MINA operating subsidy for 2017 is €3,954K lower than the realisations 2016. This operating subsidy offsets sanitation expenditure and income. Sanitation expenditure is €1,475K higher than the realisations in 2016, sanitation income is €5,429K higher than realisations in 2016.

Recovered costs rose by 1.6 million euros.

- These mainly include third-party interventions for drinking water pipes and service lines:
 - + 2.3 million euros in 2016.
 - From 2016, it is systematically checked per project and per assets group whether the third-party intervention for drinking water pipes and service lines exceeds the investment amount. If this is the case, the excess is included in income. Also in 2017, efforts were made to eliminate the backlog in the settlement and closure of old pipeline projects. This results in a higher income of 1.6 million euros as compared to the previous financial year.
 - For pipeline projects, the settlement of old advance invoices (before 2011) was made up for an amount of 0.7 million euros.
- Invoices for the technical management of the installations of SWDE were 0.7 million euros lower than in 2016.

76 Non-recurring operating income (+ 3.5 million euros)

As discussed under heading 176 of the balance sheet, the guarantees requested in the past which, despite major communication efforts, could not be repaid, were recognised in income via a single entry.

61 Services and miscellaneous goods (+ 10.2 million euros)

Sanitation costs increased by 5.2 million euros. To comply with its sanitation requirement, De Watergroep works together with a number of partners. The drainage of waste water is carried out in collaboration with sewer operators, usually municipalities and intermunicipal bodies. For the waste water treatment, a contract was signed with Aquafin. These partners are entitled to the billed sanitation charges/fees.

The costs charged for sanitation and discharge were 5.2 million euros higher than in 2016 following the indexation of the tariffs, the higher billed number of m³ and the settlement of own producers.

The costs **other services and miscellaneous goods** increased by 5.0 million euros. This is mainly due to the fact that the costs *water for resale* increased by 2.9 million euros: water purchases from SWDE increased by 1.1 million euros as compared to 2016 and water purchases from TMVW increased by 1.2 million euros. This is mainly due to the fact that more volumes were purchased as a result of the prolonged dry period up to and including the summer. This resulted, on the one hand, in less capacity at the surface water extraction sites (mainly De Blankaart and the leper water production centres) and, on the other hand, in higher consumption by customers.

62 Personnel costs (+1.9 million euros)

The **number of FTEs**, as shown in the social balance sheet, **decreased** in 2017 by on average 22 as compared to the average of 2016. This decrease is in line with the target in the plan for the future to reduce the workforce by 6% by 2018. The decrease should be made possible through increased efficiency and natural redundancies, i.e. no forced redundancies. On 2 September 2016, the **career break** regulations in the public sector were changed. Many older employees decided to join the old system before September, which allows them to take a part-time career break until they reach the pension age. This effect is still visible in the report over 2017.

In July, **wages were indexed by 2%**. This increase was partly offset by the decrease in the number of FTEs.

Under the Decree of 17 December 1997, De Watergroep is held accountable for the payment of the pensions of its former employees. To meet this obligation, De Watergroep has built up a financial reserve. This pension reserve, which is managed by Ethias, needs to be maintained in order to provide for an adequate coverage ratio for current and future pensions. The Board of Directors ensures that sufficient resources are paid into the pension fund.

The **pension contribution** for statutory staff **increased by 1.1 million euros** as compared to 2016.

630 Depreciations on intangible and tangible fixed assets (+ 4.5 million euros)

Software depreciation costs increased by 2.3 million euros.

With every new release of the Neptunus software, the **investment costs made in software** are capitalised.

In addition, both the Vesta project (operational since 1-1-2017) and the MOKA project (operational since 1-10-2017) were commissioned and capitalised. The increased investment level since 2015 has a cumulative effect on the depreciation costs. Computer software is depreciated on a straight-line basis over 3 years.

Depreciations of **buildings** increased by 1.2 million euros, mainly due to the commissioning and capitalisation of a number of large projects: the Velm water production centre (8.5 million euros), the administrative building in Kluizen (4.6 million euros) and the water production centre in Zele (4.4 million euros).

The increase in depreciation costs **plant, machinery and equipment** is for 0.9 million euros attributable to the capitalisation of sewer projects (no capitalisation in 2016) and for 0.2 million euros to pipeline projects.

631/4 Losses on stocks and trade receivables (+ 1.1 million euros)

The valuation rules of De Watergroep provide for a loss of 50% on trade receivables of more than one year and of 100% on trade receivables of more than 2 years.

The impact of higher outstanding invoices as explained under the corresponding heading is reflected in an increase in **losses on trade receivables**.

FINANCIAL RESULTS

The financial result of De Watergroep amounted to **+ 1.0 million euros**.

INCOME STATEMENT 2016 – expressed in x 1,000 euros	Code	2016	2017	<> 2016
FINANCIAL INCOME	75/76B	4,873	4,897	24
Income from current assets	751/7	226	170	-56
Capital subsidies	753	4,647	4,727	80
FINANCIAL EXPENSES	65/66B	-5,619	-3,852	1,768
Costs of debt	650	-5,589	-3,821	1,768
Other financial expenses	652/9	-31	-31	-0
FINANCIAL RESULTS (incl. non-recurring financial expenses/income)		-747	-1,045	1,792

This positive result is above all the result of the decrease in **debt charges** by 1.8 million euros because the financial income remained relatively constant.

The decrease in financial expenses is the result of the favourable refinancing of loans in 2016 and a further reduction in outstanding debt by 9.3 million euros (see 17-42).

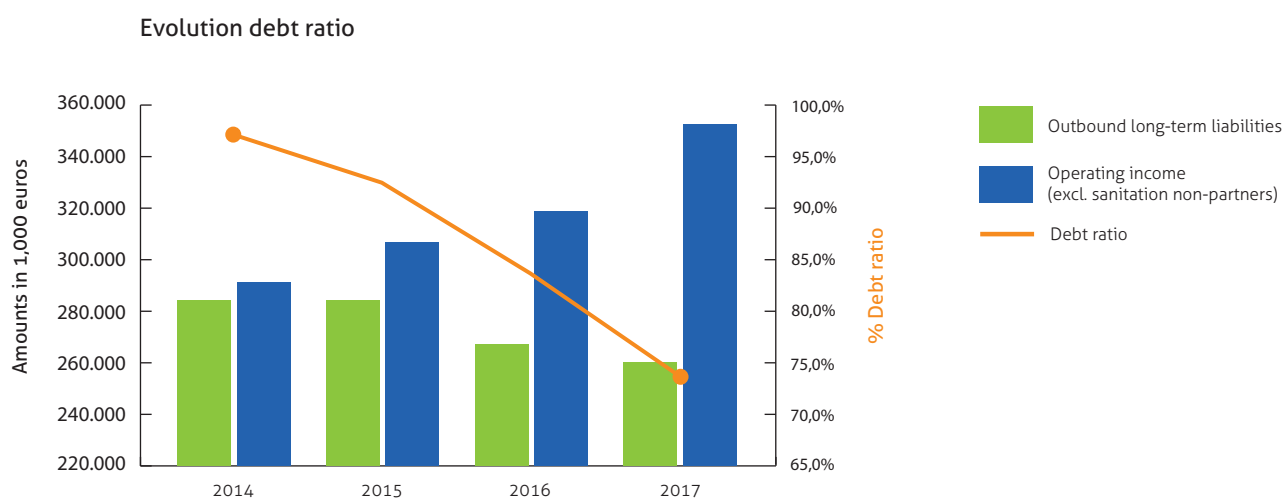
RATIO ANALYSIS

Debt ratio

Expressed in x 1,000 euros	Code	2014	2015	2016	2017
Outstanding financial debt	173/4 - 42 - 43	284,646	285,663	269,349	260,063
Operating income (excl. sanitation non-partners)	70/74- Sanitation	293,018	308,224	319,139	353,401
DEBT RATIO		97.1%	92.7%	84.4%	73.6%

One of the cornerstones of the plan for the future is to *keep the **debt ratio under control** by balancing investments and income*.

The debt ratio is calculated as the total financial debt divided by the income for De Watergroep. The aim is to keep that percentage *below 80% for drinking water*. An exception is possible in case of takeovers, provided this debt ratio is again brought to 80% in the short term. For the business units active in waste water and industrial water, some extra debts will be tolerated in the next few years, since this market requires quite a number of investments to broaden the activities. The maximum upper limit for De Watergroep as a whole is set at 105%.



When looking at the evolution of the debt ratio over the years, we see a **favourable trend**.

In 2014, the debt ratio still amounted to 97.1%. On 31 December 2014, the Intermunicipal Water Company (IWM) was taken over by De Watergroep. The loan to finance the takeover was included in the 2014 accounts, but was not offset by any turnover due to the moment of takeover (31-12).

In 2015, debts remained virtually unchanged, but turnover was generated from billing to the IWM customers taken over. As a result, the debt ratio decreased to 92.7%.

Due to the increase in operating income and the positive liquidity position of De Watergroep, the financial debt could be reduced by 16.3 million euros in 2016 and by 9.7 million euros in 2017. In 2017, this ratio was further influenced by the sharp increase in operating income, as discussed above. In 2017, the debt ratio therefore fell further to 73.6%. This should yield a sound financial basis for the planned investments, as the drinking water tariffs are fixed for a period of six years.

Financial risk management

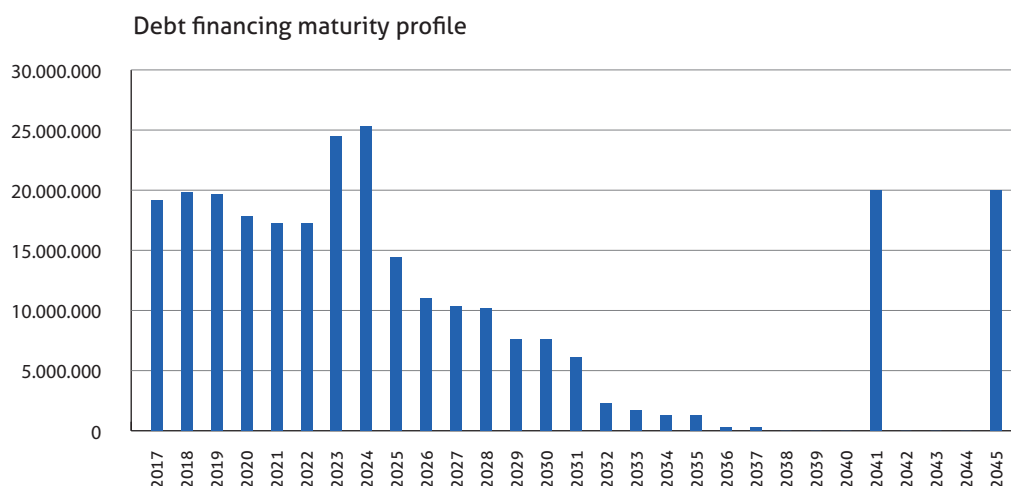
The debt-related credit risk is managed not only by limiting outstanding debt (see discussion 'debt ratio' above) but also by spreading the risk as widely as possible. This spread relates to the lenders, the durations, the spread of the maturity dates over the year and the spread of the refinancing moments over the years.

The table below shows the evolution of the total debt burden and the spread over the different durations.

	2014	2015	2016	2017
Floating	33,835,410	23,960,000	22,340,000	20,720,000
1 year		12,000,000	10,800,000	9,600,000
3 years	25,191,401	23,591,798	21,987,257	20,399,029
5 years	73,181,103	66,286,722	60,010,490	53,746,496
Ethias Var 10y	80,000,000	60,000,000		
10 years	18,438,621	37,324,883	34,211,144	31,097,406
12 years			20,000,000	18,333,333
15 years (via interest swap)	24,000,000	22,500,000	41,000,000	38,166,667
20 years		20,000,000	19,000,000	28,000,000
25 years			20,000,000	20,000,000
30 years		20,000,000	18,000,000	16,000,000
TOTAL	254,646,535	285,404,146	269,201,187	260,062,932

Notice the strong debt accumulation in 2015 as a result of the financing of the takeover of IWM, and the debt reduction in the course of the subsequent years. At the same time, the favourable market conditions were used to achieve an accelerated spread in durations.

The following graph shows the spread of the redemptions over the years of the current debt.

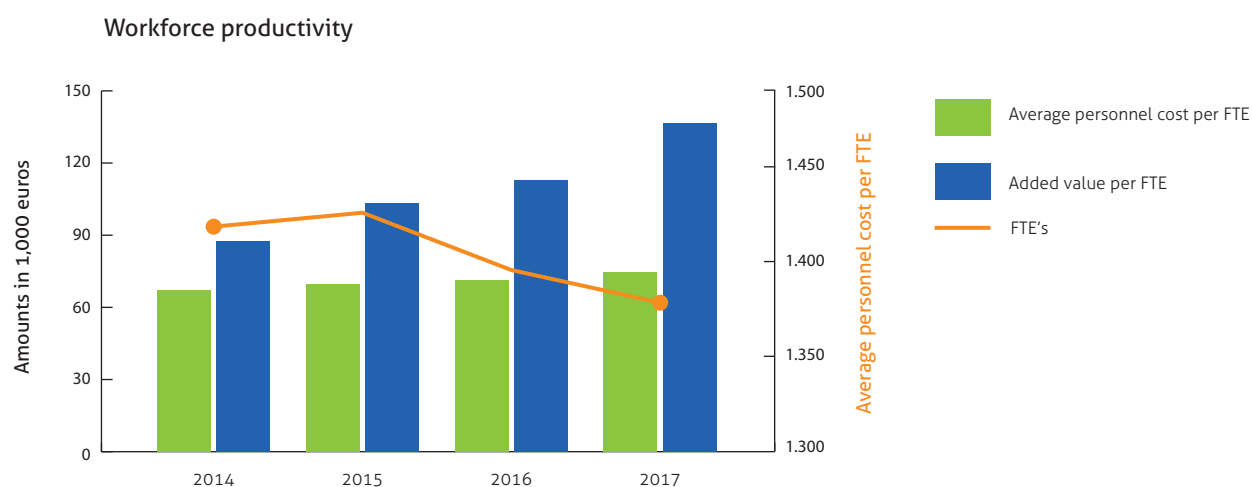


Financial instruments: Interest Rate Swap

When, as a result of circumstances, the sum of interest rate revisions and the amount to be refinanced is significantly higher than average, this causes an interest rate risk that can be hedged. In such a case, corrective action can be taken by using financial instruments. That is why, already in 2012, an Interest Rate Swap (IRS) was entered into, which took effect on 30-11-2015. The interest rate on a long-term loan was fixed via an IRS. This is a loan at 20 years, concluded on 30-11-2010 with an initial capital of 30 million euros and constant capital repayments.

The annual repayment is retained, the 5-year reviewable rate based on ISDAFIX 5 years +48 base points, is converted into a fixed rate of 3.265% per annum. At this moment, 19.5 million euros of the loan will still be owed. The annual repayments amount to 1.5 million euros. The IRS reduces the interest rate risk and at the same time contributes to a greater spread in the durations of the loan portfolio. Note that this Swap is used only for hedging and not for speculation. The Swap will be maintained until the maturity date in accordance with the Board's decision and regardless of the result. This is the reason why no separate provisions need to be recorded.

Added value per FTE



De Watergroep aims to operate more efficiently with fewer staff in the longer term.

In 2017, the average number of full-time equivalents (FTEs) decreased by 21.7 as compared to 2016. Personnel costs increased by 1.44% due to the increased employer's contribution for social insurances and the pension contribution. As a result, the average personnel cost per FTE increased from €72K in 2016 to €75K in 2017.

The added value per FTE, i.e. the efficiency per employee, increased as well (from €113K to €138K).

Importantly, the added value per FTE remains well above the average personnel cost per FTE. An average employee adds more value to the company than he/she costs the company.

EBIT (Earnings before interest and tax)

DESCRIPTION – expressed in x 1,000 euros	Section	2014	2015	2016	2017
Turnover	70	481,902	565,926	567,050	613,983
Inventory expenses	60/71	-7,379	-6,725	-6,782	-6,790
Services and miscellaneous goods	61	-375,587	-429,238	-436,715	-446,913
Remuneration, social security and pensions	62	-100,551	-100,661	-101,395	-103,276
Other operating expenses	640/8	-24,328	-14,805	-15,528	-18,319
Other operating income	74	98,619	72,614	80,311	78,094
Produced fixed assets	72	11,588	9,960	15,422	7,032
EBITDA		84,264	97,072	102,364	123,810
EBITDA %		17.5%	17.2%	18.1%	20.2%
Depreciation and impairment on intangible and tangible fixed assets	630	-68,044	-74,749	-77,427	-81,923
Provisions for risks and expenses	635/7	1,705	5,535	-628	-13,077
Impairments on stocks and trade receivables	631/4	772	-289	-1,104	-2,224
EBIT		18,696	27,569	23,205	26,585
EBIT %		3.9%	4.9%	4.1%	4.3%
Non-recurring operating expenses/income	66A/76A	-12,726	3,060	669	4,095
Financial result	65/75	-2,034	-2,025	-747	1,045
PROFIT FOR THE YEAR		3,936	28,604	23,128	31,726
PROFIT %		0.8%	5.1%	4.1%	5.2%

INCOME STATEMENT PER DIVISION

With the introduction of the harmonised drinking water tariff in early 2016, the provincial water services no longer have any impact on their income and therefore on their results, so that the results are represented analytically per division.

The divisions represent the main processes: **drinking water, waste water and industrial water**, the three market segments in which De Watergroep is active.

To arrive at a result for each division, a set of rules was agreed.

Interdivisional services are charged at agreed rates.

The waste water and industrial water divisions rely on a number of supporting services within the drinking water division. Each year, the divisions agree on what services will be used, to what extent, and at what cost.

The following table shows the results per division:

ANALYTICAL RESULTS – expressed in x 1,000 euros	2016	2017
DRINKING WATER	14,596	23,338
WASTE WATER	7,757	7,856
RioP - RR Riopact partners	6,491	8,149
Riopact (BU sewers & silent partnership)	1,004	189
Sanitation - non-partners	261	-482
INDUSTRY & SERVICES	775	532
TOTAL	23,128	31,726

Within the **waste water division**, an **additional breakdown** is made.

The **RioP** accounts are **not mutual accounts**. A result is established annually for each Riopact partner. The result that is appropriated to the individual municipality may not be used to eliminate any negative results of other water services.

De Watergroep and Aquafin decided, as from 1-1-2015, to integrate their existing collaboration in the field of integrating waste water management in a *silent partnership*, under which the results of that activity are split on a 50/50 basis between both partners. As managing partner, De Watergroep integrated the accounts of the silent partnership into its own accounts. The performance of the silent partnership can be identified through the use of 'specific' financial dimensions. At year end, 50% of the profit of the silent partnership is allocated to the silent partner, i.e. Aquafin on the one hand, and to De Watergroep on the other hand. The portion of the margin that belongs to De Watergroep (50%) is appropriated to the Sewers business unit (waste water division).

The third segment within the waste water division relates to the **sanitation** activities of the non-Riopact partners.

APPROPRIATION OF PROFITS

As regards the appropriation of profit of the financial year ending 2017, amounting to 31.7 million euros, the Board of Directors of De Watergroep proposes to the General Assembly that the profit of the financial year be processed as follows:

- Profit of drinking water activity (23.3 million euros): to be transferred to unavailable reserves,
- Profit of sewage activity (7.8 million euros): to be carried forward to the next financial year,
- Profit of Industry & Services business unit (0.5 million euros): to be carried forward to the next financial year,

DISCHARGE

The Board also proposes to grant discharge to the Directors and the Statutory Auditor for the exercise of their duties during the financial year 2017.

Additional elements

ANY IMPORTANT EVENTS THAT HAVE OCCURRED SINCE THE END OF THE FINANCIAL YEAR

Not applicable.

DESCRIPTION OF RISKS AND UNCERTAINTIES

Risk management is particularly important for De Watergroep, given its social responsibility as a drinking water company. Within De Watergroep, risk management is integrated at various levels of the decision-making process.

Every three years, the main business risks are inventoried, weighted, prioritised and finally controlled via integrated risk management. This enables De Watergroep to make informed choices that increase the likelihood of our strategy being successful. By balancing the strategic goals against the risks we are prepared to take, we demonstrate our commitment to socially responsible business practices.

To assess the risks, De Watergroep adopts the following risk attitude:

RISK CATEGORY	RISK ATTITUDE	EXPLANATION
STRATEGIC	Medium	De Watergroep is prepared to take risks to a certain extent in order to achieve its long-term vision. The aim is to achieve an optimal balance between risk and long-term objectives.
OPERATIONAL	Very low to low	Risks in respect of the safety of employees and the security of supply of high-quality drinking water must be kept very low. For processes that do not directly come into contact with drinking water, there is low readiness to accept risks depending on the risk control effort involved.
FINANCIAL	Low	Risks in respect of the financial policy are avoided wherever possible.
COMPLIANCE	Very low	De Watergroep endeavours to comply with the applicable laws and regulations.

Strategic risks

The risk associated with inadequate monitoring of future developments is identified as a top strategic risk. Today's strongly task-oriented focus creates the risk that De Watergroep has insufficient knowledge of future developments and therefore will not be able to achieve its vision of a leading drinking water company.

In order to be better prepared against this risk, the organisational structure is currently being reviewed. As a management measure, the decision was made to reorganise De Watergroep from a geographically driven organisation to a process-driven organisation, with a much greater focus on knowledge transfer and innovation. In 2016, financial reporting per provincial division was abolished. In 2017, the new directors for each process were appointed, which will replace the geographical steering at division level as of 1-1-2018. The central steering implies that not only best practices must be applied irrespective of the location, but also that the new Innovation division will support the other divisions to ensure that new developments and evolutions are made accessible within De Watergroep in an adequate manner.

Operational risks

Non-compliance with supply commitments is identified as the major operational risk by De Watergroep. This risk is twofold. Firstly, insufficient access to water sources (both groundwater and surface water and both internal and external) creates a risk of water shortage, so that we can no longer provide our customers with sufficient drinking water. Secondly, contamination of the water from source to customer creates the risk that the drinking water standards are exceeded and the supplied water no longer meets the required quality standards.

As a management measure for the volume risk and in accordance with the public service obligations, the **water supply plans** were completed in 2017. These supply plans were compiled for the entire supply area, subdivided into supply areas, which in turn consist of several consumption areas. In addition to an overview of the technical infrastructure, the supply includes, for each consumption area, the capacity and the supply under undisturbed conditions. To gain an insight into the robustness of the supply security, we specified for each installation or main pipeline how a failure can be absorbed via the available reserve capacity and/or via available connections with other areas. Based on this strength/weakness analysis, the necessary investments are derived to improve supply security, such as expanding the extraction capacity from groundwater or surface water, increasing the treatment capacity, strengthening the supply network or connections with other drinking water companies.

As a management measure for the quality risk, De Watergroep has prepared the **water safety plans** in which all present and future risks for extraction, treatment and distribution of drinking water are identified. A careful inventory was made of all imaginable threats. Expert groups have assessed the threats and determined the risk. Risk management is a continual process, which is why the water safety plans are periodically tested and revised. A water safety plan coordinator has been appointed who is responsible for determining and monitoring the planning and control cycle. In this way, we can guarantee even more the permanent delivery of high-quality water, now and in the future.

In addition to the water safety plans, a 24/7 on-call service, redundant IT and communication systems, and a well-thought-out sampling programme ensure an optimum control. The conclusion of long-term agreements with other drinking water companies and the development of an emergency drinking water supply in consultation with Aquaflanders also allow a rapid solution to be made available and a minimal service to be guaranteed to customers in the event of calamities.

Financial risks

The default risk and the interest risk are identified as the main financial risks.

To limit the default risk, De Watergroep relies on a well-developed internal debtor management. Advance billing at three-monthly intervals is used to ensure that the risk per outstanding drinking water bill remains limited. Where these measures fail to ensure timely collection, use is made of the external debtor management, which is split up into an amicable and a judicial phase.

The interest risk is managed by addressing both the cause and the effects. De Watergroep tries to keep the debt burden under control by the preparation of a long-term investment plan, an expenditure budget and a comprehensive monitoring system for optimal debt ratio management. Thanks to continuous monitoring of outstanding loans and a maximum spread over maturities, providers and expiry dates, the financial risk remains limited. To gain insight into the maturity profile and the spread of outstanding debts, please refer to the financial report.

ACTIVITIES IN THE FIELD OF RESEARCH AND DEVELOPMENT

In the coming years, De Watergroep will strongly focus on research and development. 1% of the drinking water turnover will be set aside to further develop knowledge of water technology and use it to an even greater extent in technical business processes. This is a prerequisite to fulfil our mission and vision, but above all to ensure the secure supply of high-quality drinking water in the future.

De Watergroep benefits from a number of European subsidies for financing its projects.

The Belgian government also provides fiscal incentives for research and innovation. Thus, De Watergroep is eligible for partial exemption from income tax deducted at source for researchers. This measure has a significant financial impact. We decided to re-invest the fiscal advantage in research and development.

A **comprehensive research, development and innovation programme** aimed at ensuring a sustainable, secure and climate resilient drinking water supply, is currently ongoing within the Technology division.

The programme is built around 4 cornerstones.

Horizon and technology scan

Research needs are identified through an analysis of social developments and new threats. Active participation in conferences and memberships at relevant organisations allow us keep the finger on the pulse of technological, ecological and socio-economic developments.

Internal research projects

As Flanders' largest drinking water company, De Watergroep has a huge amount of in-house expertise. Therefore, it also has a whole series of ongoing internal research projects:

- Water production centre Vlierbeek, subsurface iron removal
- Organic micropollutants in raw and drinking water
- Combination of data-driven and process-driven simulations
- Aquifer Storage & Recovery De Blankaart
- Calcite as seed material
- PHREEQC modelling for treatment processes
- Pilot installation water production centre Beernem
- Operational bottlenecks
- Optimal closure technique
- Deployability PVC-O
- Optimal drainage programmes
- Smart meters: research into the capabilities of smart meters, and by extension, smart networks, from the perspective of a water supply company
- Pipe condition assessment
- Online monitoring
- Study Reactive Barrier – drainage Overijse
- Development of screening methodology VMM
- Battery-powered measuring set-ups
- Optimisation flotation Zillebeke: test of new type of sludge scraper
- NGS (next generation sequencing)
- Fibre-optic technology for condition assessment
- Process control
- NC research
- Water production centre De Blankaart - ultrasonic algae control: analysis and methodology to reduce the harmful effect of algae on water treatment
- qPCR (quantitative Polymerase Chain Reaction)
- Analysis method for quantification of halo-acetic acids
- Legionella MALDI
- Processing drainage sludge flotation De Blankaart
- Water production centre Kortesseem – trial container for softening
- Water production centre De Gavers 50.000 – expansion preliminary study.

Collaboration with external partners

European-subsidised research projects

- Interreg, DOC2Cs: cooperation project for natural organic matter removal by ion exchange. De Watergroep participates with the semi-industrial installation in water production centre De Blankaart.
- Interreg, NuReDrain (Nutrient Removal and Recovery from Drainage Water): project in collaboration with 10 international partners.
- Horizon2020, STOP-IT: elaboration of a more systematic approach to cyber security and physical threats to the drinking water supply.
- Life IP – Puttebos
- Horizon2020, Waterprotect.

Collaboration with universities

Through supervision of graduation theses, provision of internships and research projects with grant.

Water Sources & Environment:

- Thesis KULeuven, Model-based assessment of the impact of a new pumping well near Borgloon.
- Internship UGent, Analysis of water quality data of De Watergroep and testing of various pollution indices.
- Internship and Bachelor's thesis, Katholieke Hogeschool VIVES, Study into the causes of eutrophication in reservoirs resulting in excessive blue algae growth.

Lab:

- Internship Chemicals department, Analysis of phenols.

Water Technology:

- Treatment of the brine waste stream of an ion exchanger used for DOC removal, Academic year 2017-2018.

Other external partners

- Sigfox Tienen: Small-scale trial project in collaboration with engie, Hydroko and Maddalena, on smart meters and IoT.
- Valorisation of electrical flexibility: implementation of a trial project on testing electrical flexibility in practice.
- Pilot project Optiqua Eventlab.

OperAqua II

OperAqua II comprises 2 bilateral cooperation agreements with VITO and KWR respectively for the implementation of a research programme commissioned by De Watergroep that should lead to improved operational management.

VITO

- Water intake management for water production centre De Blankaart
- Water availability model for water production centres Dikkebus and Zillebeke
- Determining the interaction between surface water and a nearby phreatic groundwater extraction well
- Analysis of reservoir sludge layer for water production centres De Blankaart and Kluizen
- Water availability model for water production centre De Gavers
- Decentralised water supply

KWR

In May 2016, De Watergroep acceded to the BTO programme (BedrijfsTakOnderzoek) of KWR and end 2016 as shareholder to KWH.

The membership fee was used for collective research projects.

The remaining budget is spent on strengthening the development of Flemish-Dutch water knowledge through collaboration with universities in Flanders.

THE EXISTENCE OF BRANCH OFFICES

Not applicable.

MAJOR LOSSES

Not applicable.

CIRCUMSTANCES THAT COULD MATERIALLY AFFECT THE DEVELOPMENT OF THE COMPANY

Not applicable.

AUDIT COMMITTEE

At least one member of the Audit Committee shall be an independent director who possesses the necessary expertise in the field of accounting and auditing.

ADDITIONAL INFORMATION

CAPITAL SUBSIDIES - (Art. 100, 5c of the Companies Code)

In 2017, capital subsidies for 5.12 million euros were awarded by the Flemish Region in the context of sewerage projects. An amount of 2.9 million euros relating to previously awarded subsidies was paid out.

Approved by the Board of Directors of 30 March 2018

Mieke Van Hootegem
President of the Board of Directors

Hans Goossens
General Director

Notes to the annual accounts

The following pages represent the abridged version of the annual accounts of De Watergroep. The full annual accounts are published by the Central Balance Sheet Office of the National Bank within one month following their approval by the General Meeting. The auditors approved the annual accounts of De Watergroep without qualifications.



Balance Sheet De Watergroep – assets

ASSETS	Code	2017	2016
Formation expenses	20	0.00	0.00
Fixed assets	21/28	1,355,496,048.61	1,350,529,187.48
Intangible fixed assets	21	20,656,416.51	24,016,686.75
Tangible fixed assets	22/27	1,322,951,580.39	1,314,646,949.02
A. Land and buildings	22	258,119,993.83	250,497,949.05
B. Installations, machinery and equipment	23	886,909,037.56	871,880,294.25
C. Furniture and rolling stock	24	6,203,387.79	5,511,985.97
D. Leasing and similar rights	25	0.00	0.00
E. Other tangible fixed assets	26	0.00	0.00
F. Assets under construction and prepayments	27	171,719,161.21	186,756,719.75
Financial fixed assets	28	11,888,051.71	11,865,551.71
Current assets	29/58	229,557,894.05	210,466,532.55
Receivables at more than one year	29	1,020,594.38	0.00
Stocks and orders in progress	3	5,654,444.61	5,304,312.20
Receivables due within one year	40/41	157,168,823.63	156,094,190.67
A. Trade receivables	40	111,785,754.32	106,241,889.38
B. Other receivables	41	45,383,069.31	49,852,301.29
Investments	50/53	51,941,338.74	29,002,805.79
A. Own shares	50	0.00	0.00
B. Other investments	51/53	51,941,338.74	29,002,805.79
Cash and cash equivalents	54/58	11,764,553.87	17,295,488.14
Accruals and deferrals	490/1/5	2,008,138.82	2,769,735.75
Total ASSETS	20/58	1,585,053,942.66	1,560,995,720.03

Balance Sheet De Watergroep – liabilities

LIABILITIES	Code	2017	2016
Shareholders' equity	10/15	1,126,794,401.44	1,096,102,417.11
Capital	10	662,388,578.82	662,388,578.82
A. Subscribed capital	100	902,640,250.00	902,640,250.00
B. Uncalled capital	101	-240,251,671.18	-240,251,671.18
Revaluation gains	12	127,676,782.15	137,426,716.73
Reserves	13	155,554,381.83	122,466,521.39
Transferred profit/loss	14	79,997,912.70	71,609,999.19
Capital subsidies	15	101,176,745.94	102,210,600.98
Provisions and deferred taxes	16	20,682,700.61	7,605,380.78
Liabilities	17/49	437,576,840.61	457,287,922.14
Liabilities due at more than one year	17	240,402,210.78	253,678,601.06
A. Financial liabilities	170/4	240,401,913.31	250,063,828.95
B. Trade liabilities	175	0.00	0.00
C. Advanced payments of orders	176	0.00	3,614,474.64
D. Other liabilities	178/9	297.47	297.47
Liabilities due within one year	42/8	176,290,700.86	188,085,463.37
A. Liabilities +1y due within one year	42	20,511,481.28	20,181,470.69
B. Financial liabilities	43	0.00	0.00
C. Trade liabilities	44	102,065,321.07	108,329,978.80
D. Advance payments received	46	31,347,723.85	37,484,442.41
E. Liabilities relating to taxes, remuneration and social security	45	7,661,216.05	9,885,366.52
F. Other liabilities	47/48	14,704,958.61	12,204,204.95
Accruals and deferrals	492/3	20,883,928.97	15,523,857.71
Total LIABILITIES	10/49	1,585,053,942.66	1,560,995,720.03

Income Statement De Watergroep

INCOME STATEMENT	Code	2017	2016
Operating income	70/76A	703,064,257.22	662,967,352.01
Turnover	70	613,982,854.43	567,050,211.45
Drinking water		263,534,211.48	225,611,530.20
Fixed charge drinking water		41,243,885.66	37,321,470.22
Consumption drinking water		215,585,976.20	182,379,351.73
Capacity fee		6,704,349.62	5,910,708.25
Sanitation		305,941,742.18	295,756,433.44
Fixed charge treatment		14,962,455.09	12,350,377.48
Fixed charge drainage		22,485,355.48	18,543,150.38
Charge/fee treatment		115,632,530.23	112,815,874.69
Charge/fee drainage		152,861,401.38	152,047,030.89
Other turnover		44,506,900.77	45,682,247.81
Water supplies to third parties		9,378,467.27	8,064,286.79
Other water supplies (industrial water, grey water, etc.)		2,818,978.24	2,713,035.03
Services take-off points (installation and repair water meters, etc.)		6,010,768.61	6,470,278.03
Inspections		2,763,773.19	1,955,114.05
Sanitation services		10,807,593.29	11,957,733.60
Sewers		10,066,888.70	11,295,156.26
Other turnover		2,660,431.47	3,226,644.05
Stock of work in progress	71	-209,748.24	-518,881.35
Produced fixed assets	72	7,032,173.17	15,422,352.05
Other operating income	74	78,093,884.32	80,311,037.79
MINA fund operating subsidy		57,438,187.75	61,391,717.08
Debt monitoring		7,162,293.45	6,877,891.35
Recovered costs		10,058,676.51	8,421,101.16
Miscellaneous operating income		3,434,726.61	3,620,328.20
Non-recurring operating income	76A	4,165,093.54	702,632.07

Income Statement De Watergroep (cont'd)

Operating expenses	60/66A	-672,383,694.59	-639,092,719.16
Goods for resale, raw materials and supplies	60	-6,580,686.40	-6,262,893.10
Services and miscellaneous goods	61	-446,913,244.93	-436,715,185.20
Sanitation costs		-348,283,737.75	-343,126,243.37
Treatment costs		-188,033,173.07	-186,557,969.25
Drainage costs		-160,250,564.68	-156,568,274.12
Other services and miscellaneous goods		-98,629,507.18	-93,588,941.83
Water for resale		-28,999,216.95	-26,140,959.43
Contractors		-17,970,542.24	-17,251,193.38
Chemical products		-4,752,685.53	-4,363,468.43
Electricity		-9,336,957.58	-9,336,957.58
Maintenance infrastructure		-5,797,076.18	-5,489,604.84
IT		-8,709,087.31	-9,007,684.20
Postage costs		-4,870,234.38	-4,784,368.49
Vehicles		-2,759,332.47	-2,726,282.86
Other services and miscellaneous goods		-15,482,729.50	-14,488,422.62
Remuneration, social security and pensions	62	-103,275,975.86	-101,394,738.22
Remuneration and social security		-75,426,580.15	-76,782,444.15
Pension contributions		-23,999,317.44	-22,914,510.75
Other personnel costs		-3,850,078.27	-1,697,783.32
Depreciations and impairments on fixed assets	630	-81,923,488.75	-77,426,796.91
Impairments on stocks and trade receivables	631/4	-2,223,952.44	-1,104,136.27
Provisions for risks and expenses	635/7	-13,077,319.83	-627,763.48
Other operating expenses	640/8	-18,319,057.72	-15,528,012.31
Tax water supplies and surface water		-8,669,837.73	-8,892,318.31
Demolition		-1,569,070.80	-821,955.26
Losses on trade receivables		-3,974,152.79	-3,929,592.08
Miscellaneous operating expenses		-4,105,996.40	-1,884,146.66
Non-recurring operating expenses	66A	-69,968.66	-33,193.67
OPERATING PROFIT (loss -)		30,680,562.63	23,874,632.85
Financial income	75/76B	4,896,823.63	4,872,848.02
Financial expenses	65/66B	-3,851,546.89	-5,619,434.34
PROFIT (loss -) for the year before taxation		31,725,839.37	23,128,046.53

Coordinated Valuation Rules

(RD of 08.10.1976 – art. 15, 2)

(approved by the Board of Directors at its meeting of 22 December 2017)

A. Depreciations

As from 1 January 1998, all assets are depreciated on a pro rata temporis basis.

Formation expenses (20xxx)

The formation expenses are immediately taken into the income statement.

Intangible fixed assets (21xxx)

- Computer software (**21100X**): is depreciated on a straight-line basis over 36 months (33%).
- Know-how (**21120X**): is depreciated on a straight-line basis over 5 years (20%).
- Goodwill (**21200X**): is depreciated over 5 years (20%).

Tangible fixed assets (22xxxx/27xxxx)

1. Land (22000X + 22200X) (including above-ground inlets)

- Land is not depreciated, even if later a building is erected on it.
- Land that is part of purchased built-up property and for which no separate valuation could be obtained for the land and the building (applicable only to purchases through to 1990), is depreciated as an integral part of the total value of the purchased property.

2. Buildings (221XXX + 222XXX)

2.1. Administrative and operating buildings (22100X + 22200X)

- Realised through to 31-12-1995: depreciated on a straight-line basis over 50 years (2%).
- Realised from 1-1-1996: depreciated on a straight-line basis over 30 years (3.33%).

2.2. Production and supply installations (**22100X + 22200X**) in the drinking water infrastructure (water towers, reservoirs, pressure installations, pumping and treatment stations)

- Realised through to 31-12-1990: from 01-01-1991 through to 31-12-1995, these were depreciated on a straight-line basis over 60 years (1.67%). From 1-1-1996 they are depreciated at net book value as per 31-12-1995 over 25 years in equal yearly instalments (4%), bringing the total depreciation period to 30 years.
- Realised from 01-01-1991 through to 31-12-1995: to be depreciated on a straight-line basis over 50 years (2%).
- Realised from 01-01-1996: to be depreciated on a straight-line basis over 30 years (3.33%).

As regards investments in **electromechanical equipment (22110X)** of these production and supply installations in the drinking water infrastructure (pumps, measuring and control equipment, pipes, switchboards, etc. - in short tangible assets that have become intangible due to their use), these are depreciated on a straight-line basis over 20 years (5%).

As regards **upgrading and renovation works (22120X)** that are considered investments (value greater than 125,000 euros for buildings):

- If the total amount of such works on buildings lies between 125,000 and 750,000 euros, they are capitalised and depreciated on a straight-line basis over 10 years (10%).
- If the amount exceeds 750,000 euros, they are depreciated on a straight-line basis over 20 years (5%) (**22130X**).

2.3. Sewer pump stations (**22150X**)

The investment in the constructional part of the sewer pump stations is depreciated on a straight-line basis over 30 years (3.33%).

As regards investments in electromechanical equipment (22160X) of these sewer pump stations (pumps, measuring and control equipment, pipes, switchboards, etc. - in short, tangible assets that have become intangible due to their use), these are depreciated on a straight-line basis over 15 years (6.67%).

3. Assets acquired under a leasehold or any other right in rem (**22300X**)

These are depreciated on a straight-line basis over the duration of the leasehold or the right in rem.

4. Contractual water-bound installations (**224XXX**)

Contractual water-bound installations (**22400X**) are depreciated on a straight-line basis over the duration of the contract.

Membranes that are part of the contractual water-bound installations are depreciated over 5 years (ultrafiltration membranes) (**22410X**) and 3 years (reverse osmosis membranes) (**22420X**).

5. Reservoirs (**225XXX**)

The De Blankaart and Kluizen reservoirs are depreciated on a straight-line basis over 20 years (5%).

6. Pipes (23010X) and sewers (23030X)

- The distinction between supply pipes and distribution pipes is made on the basis of the nominal pipe diameter: pipes with a nominal diameter of up to 150 mm are distribution pipes.
- Drinking water pipelines (23010X) are depreciated on a straight-line basis over 45 years.
- Sewers (23030X) are depreciated on a straight-line basis over 45 years.
- Any change to the pipes (both new investments and replacement investments and decommissioning) is recorded based on the records in the project accounting module, which is continuously reconciled with the GIS.

7. Chambers (on pipelines or sewers) (23020X)

Chambers are depreciated on a straight-line basis over 20 years.

8. IBAs (23040X)

To be depreciated on a straight-line basis over 15 years (6.67%).

9. Drinking water service pipes (2306XX)

Service pipes are depreciated on a straight-line basis over 30 years.

10. Excavators (231XXX)

To be depreciated on a straight-line basis over 5 years (20%).

11. Major equipment (compressors, rammers, construction site pumps, etc.) (232XXX)

To be depreciated on a straight-line basis over 5 years (20%).

12. IT equipment (hardware and system software) (233XXX)

To be depreciated on a straight-line basis over 36 months (33%).

13. Precision instruments (234XXX)

Including devices used for surveying: to be depreciated on a straight-line basis over 5 years (20%).

14. Telecommunications equipment (radio equipment, modems, PABXs and telephone sets, fax machines, data transmission lines, etc.) (235XXX)

All new equipment is to be depreciated on a straight-line basis over 5 years (20%).

15. Furniture (chairs, cabinets, desks, etc.) (24000X)

To be depreciated on a straight-line basis over 10 years (10%).

16. Laboratory equipment (24020X)

To be depreciated on a straight-line basis over 5 years (20%).

17. Vehicles (heavy- and light-duty trucks, passenger cars and dual use vehicles) (24100X+24110X)

To be depreciated on a straight-line basis over 5 years (20%).

18. Leasing (25XXXXX)

To be depreciated over the duration of the contract.

B. Capitalisation of tangible fixed assets

Purchased tangible fixed assets

These assets are capitalised at purchase price, increased by the notary fees, the registration charges and, where applicable, the land acquisition costs.

Other expenses such as loss of crops, measurements, provisional commissioning, etc. are included in the results.

Fixed assets produced in-house (to be depreciated as purchased tangible fixed assets)

These assets are valued at manufacturing price. This price includes, in addition to the acquisition costs of raw materials, consumables and auxiliary materials, the production costs that can be directly assigned to the individual product or product group (direct costing). For the period 2012 through to 2016, the valuation rules stipulated that also the costs for design, study, monitoring the progress of the work, and assistance in the acceptance process (in short 'engineering costs') were capitalised (full cost).

As long as these assets have not been completed, they are recorded under 'fixed assets under construction'.

Third party contributions

Third party contributions towards the financing of tangible fixed assets are deducted at the corresponding acquisition value.

The depreciation is calculated on the net value (acquisition value - third party contributions).

C. Receivables at more than one year

Other receivables (291XXX)

Depreciations according to contractual provisions.

D. Stocks

Warehouse stocks (30XXXX)

The stocks are valued when the annual inventories are conducted.
As from 1 January 2000, the stocks are valued according to the FIFO method.
A 100% impairment is recorded for stocks older than three years.

Work in progress (32XXXX)

These goods are valued at manufacturing price and include only the direct costs.

E. Cash investments and cash equivalents

Sums owed to banks are valued at nominal value. An impairment is recorded if the repayment value at the closing date is lower than the book value.

Payments in foreign currency

The conversion from euro to foreign currency is based on the official exchange rates on the day of the transaction. Considering the small volume of transactions with foreign countries, no provisions are set up for exchange rate fluctuations.

F. Provisions for risks and expenses

A provision for risks and expenses is set up for known risks at the closing date and any losses that have arisen in the course of the financial year or previous financial years.

G. Receivables due within one year

The provision for doubtful debts is calculated as follows:
(total trade receivables of more than one year at 50%) + (total trade receivables of more than two years at 100%).

H. Research and development

Expenses related to research and development are taken into the income statement of the financial year in which they were incurred.

I. Turnover from water sales

Because of the billing system used within the sales process and its periodicity, the invoice date is used as basis for delineating the turnover.



De Watergroep

WATER. VANDAAG EN MORGEN.

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