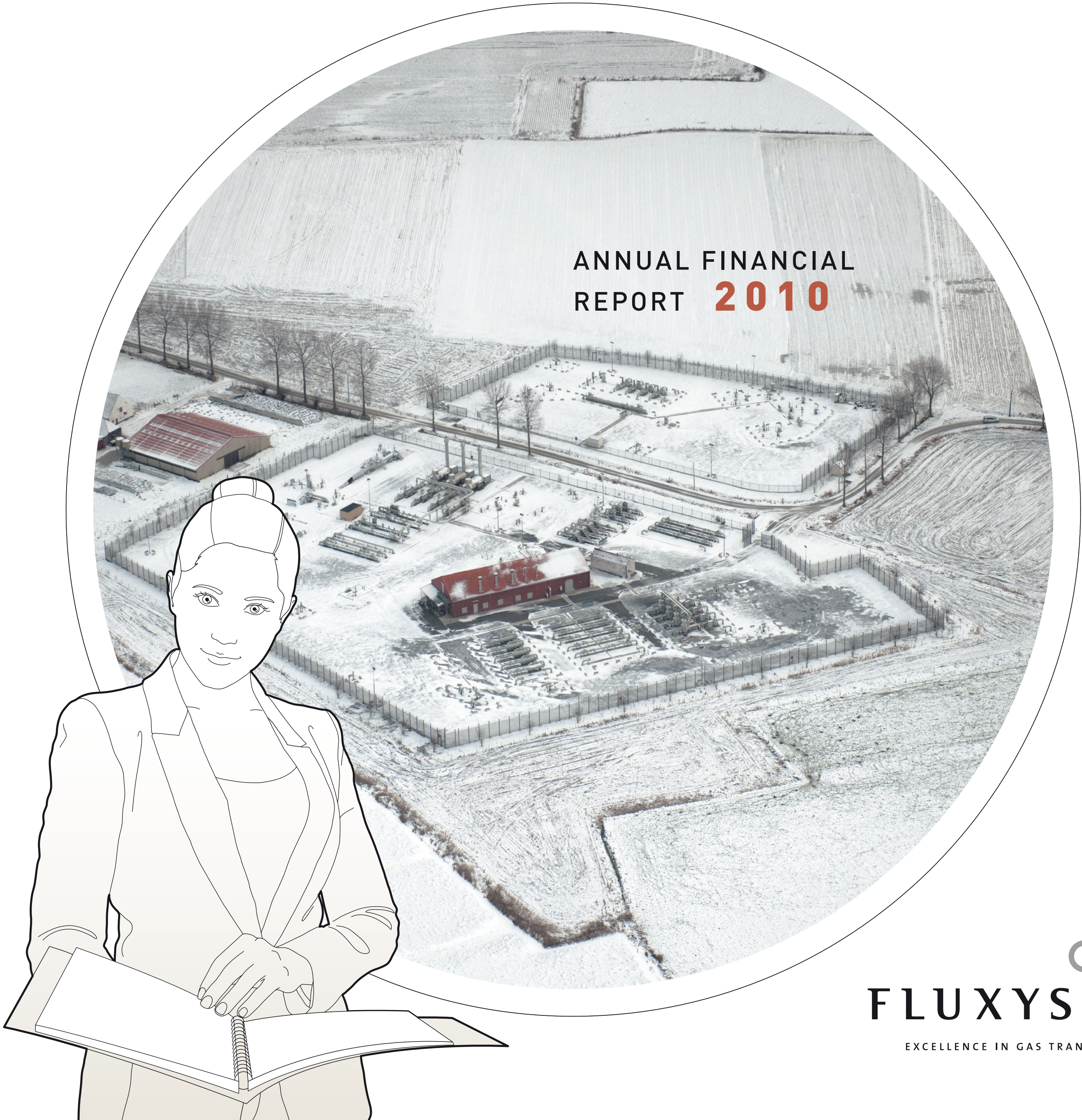
# ANNUAL FINANCIAL REPORT 2010



FLUXYS

EXCELLENCE IN GAS TRANSPORT

**82ND FINANCIAL YEAR -** REPORTS TO THE ANNUAL GENERAL MEETING OF 10 MAY 2011

FLUXYS

EXCELLENCE IN GAS TRANSPORT

## ANNUAL REPORT

## SUSTAINABLE DEVELOPMENT

# Foreword

## 2010: A record year in all respects

For Fluxys, its staff and shareholders, 2010 was once again a year full of challenges and developments. The economy recovered, we rounded off a substantial investment programme and conveyed the largest volumes of natural gas to date – without any interruption – both to Belgian end-users and to neighbouring markets. In addition, the group's financial structure underwent radical changes as well.

## Belgian grid shores up its pivotal role as a natural gas crossroads

Belgium does not have any natural gas production of its own and ever since the latter was introduced into North-Western Europe, Fluxys has developed into a crucial link for cross-border natural gas flows both north/south and east/west. We have constantly sought to enhance this crossroads role through investment in transmission and LNG terminalling, which is funded through long-term contracts. This strategy has enabled us to overcome the lack of domestic natural gas production in Belgium as well as the shortfall in storage capacity, while at the same time forming the basis for exceptionally high security of natural gas supply – a major feat considering that natural gas currently accounts for approximately 25% of all energy consumed in Belgium.

In a bid to promote the attractiveness of the Fluxys grid as a natural gas crossroads, we have underpinned our approach via competitive tariffs for transmission, storage and LNG terminalling with all three activities showing tariffs among the lowest in Europe. The tariff agreement signed between Fluxys and CREG in late 2009 has consolidated our position in this regard: our tariffs have become even more competitive, show better predictability over the long term and thus form a solid basis for funding our comprehensive investment programme as well.

In 2010, we further consolidated the role of our grid as a natural gas crossroads in North-Western Europe through a raft of measures including expansion of the transmission grid, commencement of additional long-term contracts for transmission between Zeebrugge, Zelzate and Eynatten, and marketing of short-term transmission between spot markets. The LNG terminal saw a high utilisation rate as well and plans for a second capacity enhancement at the facility gained ground towards the end of the year with the decision to build a second jetty. In addition, if sufficient long-term capacity is booked, a fifth storage tank will be built.

Fluxys is to invest between €200 million and €300 million in constructing a second jetty and a fifth storage tank since the general expectation is that in the future additional natural gas volumes will need to be imported from outside Europe, to offset the rapid decline in natural gas production in Europe among other things. Given the policy in European countries of importing natural gas from as broad a range of sources as possible, we believe it is reasonable to anticipate that approximately 20% of additional imports will be in the form of LNG. Thus, with the Zeebrugge LNG terminal capacity enhancement and the expansion of east/west transmission capacity Fluxys is well placed to be able to attract a considerable proportion of these additional flows.

As for storage, 2010 was also the year in which we launched a feasibility study into broadening our offer to include long-term storage. This new policy is intended to benefit all storage users by boosting capacity utilisation and enhancing flexibility in the market.

### Our prime concern: building and operating natural gas infrastructure safely

The precondition for Fluxys' further development as a natural gas crossroads in North-Western Europe is that our prime concern remains that of building and operating our infrastructure safely. Following the gas leak that occurred in Wilsele during commissioning of a pipeline, we have learned valuable lessons concerning how the incident arose and have worked closely with the authorities in taking the appropriate remedial actions to ensure safe re-commissioning of the infrastructure. At the same time, Fluxys management has also decided to embed the company's safety culture even deeper in all our activities and at all levels through a medium- and long-term programme addressing staff, management and organisation. As part of the programme, the awareness campaigns and discussions will be continued – and scaled up where required – with the authorities, emergency services and local residents in particular and with all stakeholders in general.

### European industrial group

Following the group's restructuring in 2010 spearheaded by its reference shareholder, Fluxys has become the key piece in the strategy approved by the Board of Directors of Fluxys G and aimed at broadening the scope of our activities both upstream via involvement in the NEL project and downstream via shoring up our stake in Interconnector. This development falls squarely within the European policy of integrating markets and consolidating security of natural gas supply, and as system operator, Fluxys' role is to help achieve these goals.

### Optimising our financial structure

The Board of Directors decided to review the company's dividend policy and to raise the distribution ratio. As a result, the dividend now offers a return which more accurately reflects that of comparable companies. Fluxys also has a solid financial basis upon which to channel approximately €2 billion into its comprehensive 10-year investment programme in Belgium through loans. The resulting change in financial structure will also help to keep Fluxys' tariffs competitive in the long term.

### Valuing the expertise of our skilled staff

Fluxys is broadly appreciated for its knowhow: in order to develop our activities and shore up our grid as a natural gas crossroads, we harness the best available technologies and combine them with new developments in the natural gas industry in terms of technology, organisation and commercial strategy. This development is crucial with a view to pursuing our activities in a sustainable manner and we are fortunate in this respect to be able to rely on our skilled and dedicated staff. We would therefore like to take this opportunity to express explicitly our thanks to them all for their crucial contribution to Fluxys' success.

Walter Peeraer
Chairman of the Executive Board and CEO

Daniël Termont
Chairman of the Board of Directors

# Shareholders' guide

The main event during the financial year 2010 was the rearrangement of the Fluxys group structure following the sale of the subsidiaries Fluxys Europe and Fluxys Finance to Fluxys G (previously Fluxys Holding) and the sale of Huberator, GMSL, APX-Endex Holding and C4Gas to Fluxys Europe. The sales generated a surplus of €160 million which was distributed on 16 December 2010 as an interim dividend of €228 per share.

### Fluxys shares

Fluxys shares are listed on the Second Market of NYSE Euronext Brussels.

### Shareholders' agenda

- 10 May 2011 – Annual General Meeting
- 19 May 2011 – Payment of dividends
- 31 August 2011 – Press release by the Board of Directors on the half-yearly results in accordance with IFRS

Interim statements will be published in May and November 2011.

### Payment of dividends

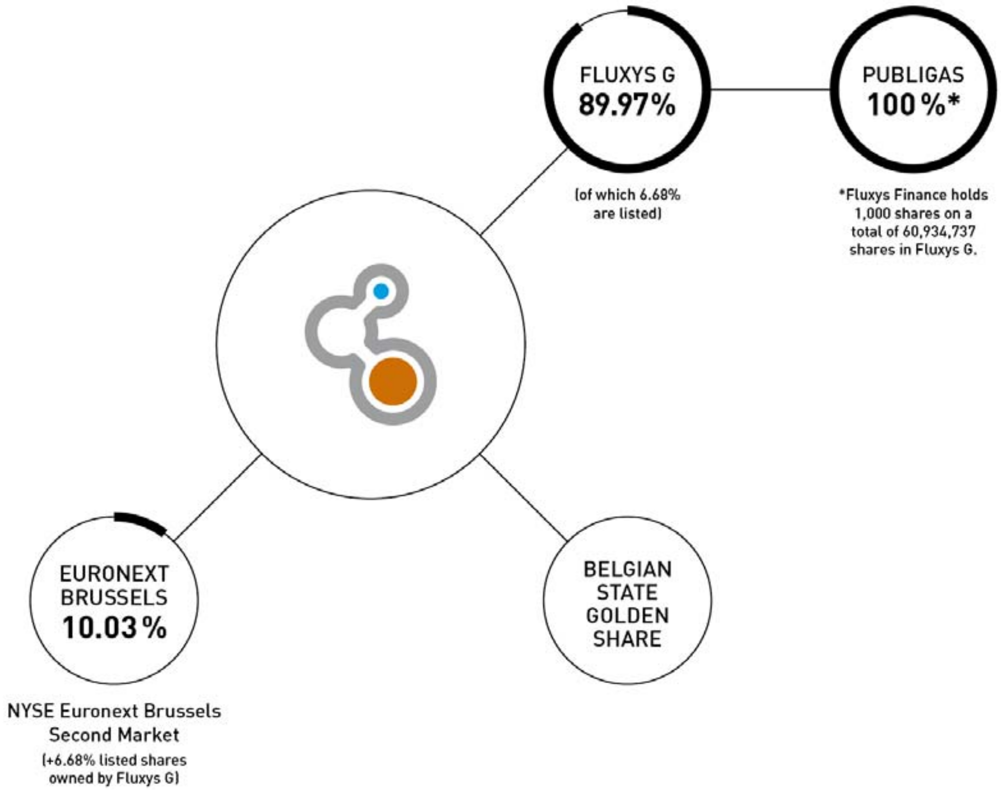
The gross dividend per share for the financial year 2010 is €448, compared with €70 in 2009. This equates to a net dividend of €336 for 2010, as opposed to €52.50 in 2009.

Factoring in payment of the interim dividend of €228 gross on 16 December 2010, the remaining dividend for 2010 is therefore €220 gross (€171net).

The increase in the 2010 dividend in comparison to that distributed in 2009 is due in part to the capital gain generated by the sale of a number of subsidiaries following the restructuring of the Fluxys group, and also to the introduction of a new profit-distribution policy. The Fluxys Board of Directors decided to propose distributing the entire net result for the period, plus (barring unforeseen circumstances) the revaluation surplus on tangible assets as and when they depreciate. This new profit-distribution offers Fluxys additional possibilities to gear its financial structure into an equity/borrowed funds ratio more in line with the regulatory framework. This new distribution policy will also be applied within Fluxys LNG.

Dividends in respect of class-D bearer shares will be paid on presentation of coupon no. 12 at Dexia Bank Belgium. Dividends in respect of shares held in a securities account will be paid automatically.

Shareholder structure as at 31 December 2010



## Fluxys share

| | | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| Price | Maximum | 2,525 | 2,525 | 2,580 | 2,831 | 2,840 |
| | Minimum | 2,150 | 1,950 | 1,826 | 2,300 | 2,260 |
| | Closing rate at 31 December | 2,330 | 2,280 | 1,901 | 2,440 | 2,752.5 |
| | Average | 2,302 | 2,240 | 2,272 | 2,594 | 2,511 |
| Cashflow per share | | 486.56 | 407.04 | 330.88 | 173.69 | 171.30 |
| Consolidated net profit per share | | 352.04 | 146.94 | 165.16 | 109.70 | 110.84 |
| | | | | | | |
| Price/profit ratio at 31 December | | 9 | 16 | 12 | 22 | 25 |
| Number of shares | | 702,636 | 702,636 | 702,636 | 702,636 | 702,636 |
| Average daily volume traded | | 20 | 43 | 70 | 47 | 79 |

## Gross/net dividend per share (€)

| | 2010 * | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Gross dividend per share | 448 | 70.00 | 70.00 | 108.00 | 58.00 |
| Net dividend per share | 336 | 52.50 | 52.50 | 81.00 | 43.50 |

## Consolidated net result, Fluxys SA share (in € million)

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Consolidated net result, Fluxys SA share | 247 | 103 | 116 | 77 | 78 |

## Consolidated equity, Fluxys SA share (in € million)

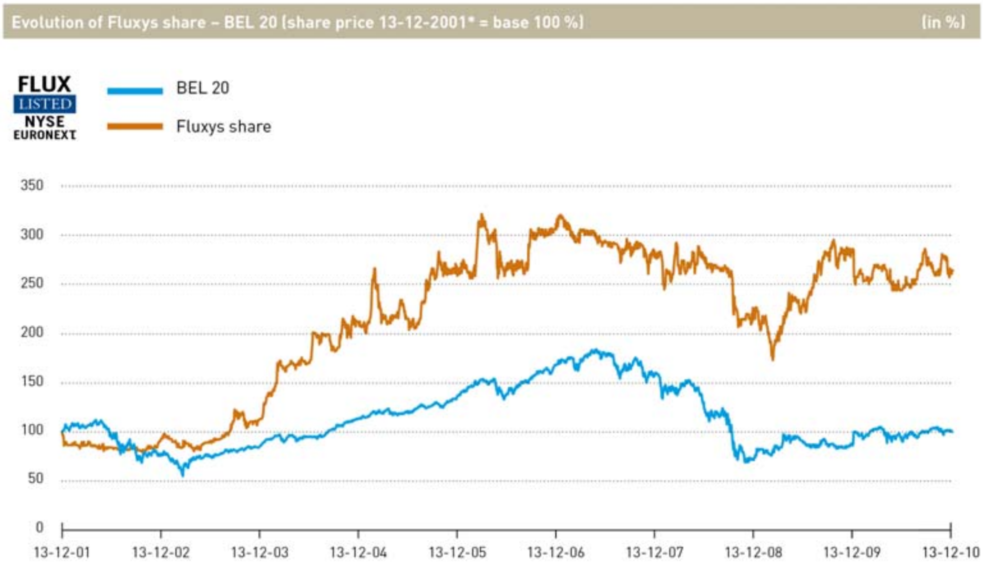
| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Consolidated equity, Fluxys SA share | 1,401 | 1,369 | 1,311 | 1,217 | 1,211 |

* In December 2010 an interim dividend of €228 was paid.

## Notes on Fluxys shares

The Fluxys share price closed at €2,279.98 on 31 December 2009. The lowest closing rate in 2010 was €2,150 on 26 May and 11 June, and the highest was €2,525 on 22 September 2010. At the end of 2010, the share price was €2,330. The average daily volume of shares traded on the Second Market of NYSE Euronext Brussels was 20 in 2010 compared with 43 in 2009.

## Evolution of Fluxys shares – BEL 20 (share price as at 13 December 2001* = base 100%) (in %)




**On 1 December 2001, the company split off its natural gas wholesale activities. This demerger involved a separation of accounts effective as of July 2001. The new Fluxys share following the split-off has been listed on NYSE Euronext Brussels since 13 December 2001.*

# Fluxys in a nutshell

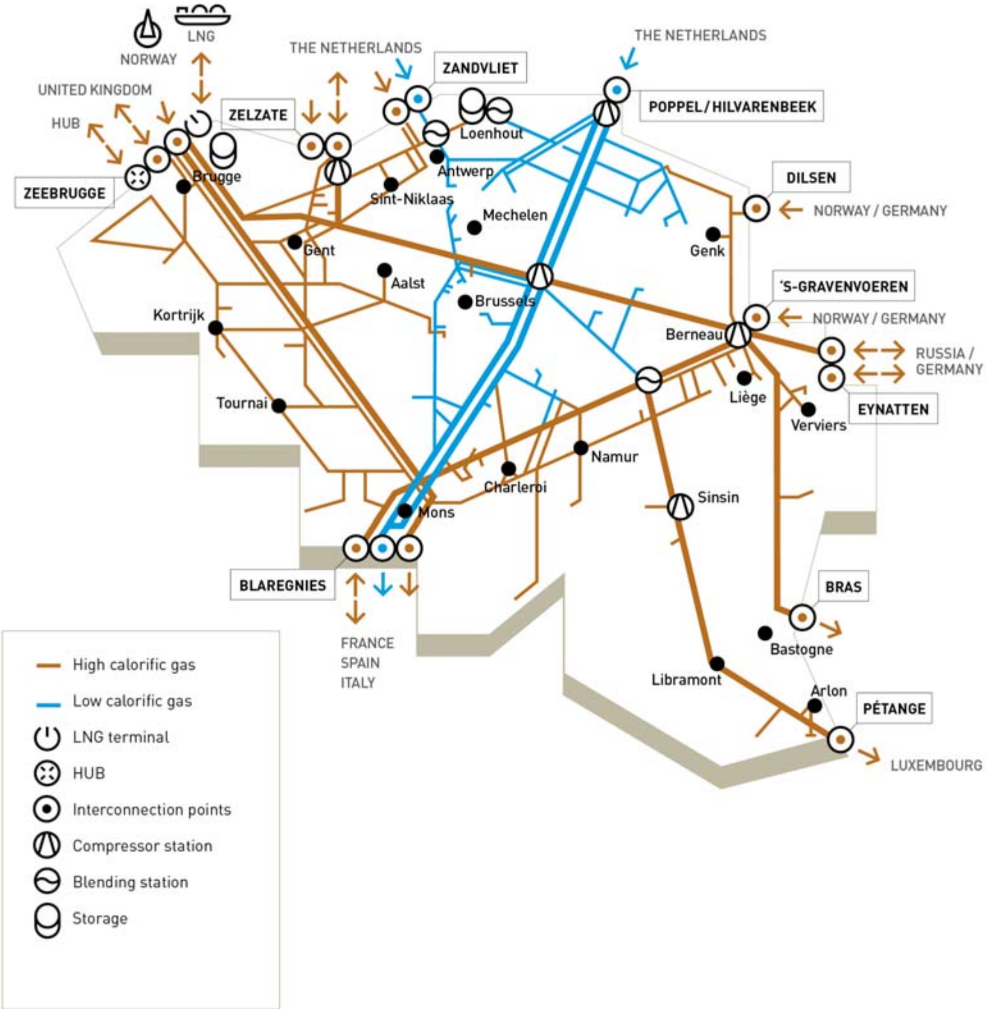
## Services

Transmission – Fluxys sells capacity to its system users to transmit natural gas from the border to distribution system operators, power stations and major industrial end users. System users can also purchase capacity to transmit natural gas across Belgium for other end-user markets in Europe.

Storage – Fluxys offers capacity at its underground storage facility in Loenhout enabling suppliers to store natural gas during the summer and build up a buffer to ensure the continuity of deliveries to their customers.

LNG terminalling (liquefied natural gas) – At the Zeebrugge terminal, Fluxys commercialises bundled capacity for loading and unloading LNG ships, storing LNG and regasifying it prior to injection into the Fluxys grid.

# Infrastructure



## Fluxys: part of the Fluxys G group

In 2010, Fluxys and Publigas rearranged the group structure to take account of recent requirements introduced under Belgian legislation regarding the independence of system operators vis-à-vis natural gas suppliers. The new structure also paves the way for the group's international development, a prerequisite for enhancing Belgium's role as a crossroads on the North-Western European natural gas market.

### Mission

As a transmission infrastructure company operating on the North-Western European natural gas market, Fluxys G wishes to enhance security of supply and the functioning of the market by promoting cross-border natural gas flows and transfers in that region.

To foster the integration of the North-Western European natural gas market, Fluxys G is developing a profitable set of stakes in and industrial partnerships with companies active in natural gas transmission and storage, LNG terminalling and spot market facilitation.

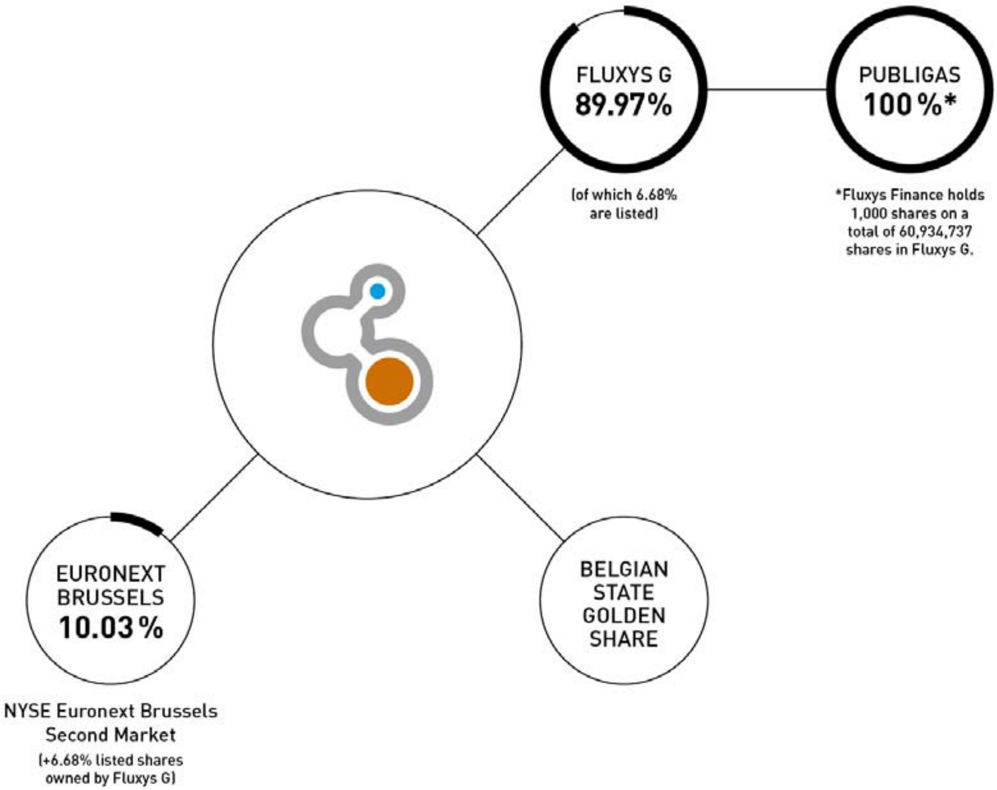
In Belgium, Fluxys G builds and operates infrastructure for natural gas transmission, natural gas storage and liquefied natural gas terminalling. To that effect, Fluxys and Fluxys LNG are appointed as independent system operators in Belgium. As such, their activities are of general economic interest. Both companies aim to set competitive tariffs and continuously strive to reinforce the role of the Fluxys grid as a natural gas crossroads with a view to safeguarding security of supply and improving the functioning of the market.

Safety, efficiency, sustainability and profitability are at the centre of our approach.

### Vision

The natural gas transmission market in North-Western Europe is evolving towards a virtual cross-border unity. The companies of Fluxys G wish to play a key role in developing this integrating market into an efficient system for suppliers to move natural gas flexibly from any border point in the region to their customers.

## Shareholders



# Corporate bodies as at 16 March 2011

## Board of Directors

Daniël Termont, *Chairman and Vice-Chairman of the Strategy Committee*
Claude Grégoire, *Vice-Chairman and Chairman of the Strategy Committee*
Marianne Basecq *
Sophie Brouhon *
Jean-Jacques Cayeman
Paul De fauw, *Chairman of the Audit Committee*
Caroline De Padt *
Mireille Deziron
André Farber *, *Chairman of the Corporate Governance Committee*
Luc Hujoel
Luc Janssens
Monique Lievens *
Patrick Moenaert
Walter Nonneman *
Josly Piette
Henriette Van Caenegem *
Christian Viaene, *Chairman of the Appointment and Remuneration Committee*
Luc Zabeau

François Fontaine, *Federal government representative acting in an advisory capacity*
Walter Peeraer, *Chairman of the Executive Board and CEO, invited in an advisory capacity*

Nicolas Daubies acts as secretary to the Board of Directors.

** Independent directors under the provisions of the Gas Act.*

## Strategy Committee

Claude Grégoire, *Chairman*
Daniël Termont, *Vice-Chairman*
Sophie Brouhon
Caroline De Padt
Luc Hujoel
Patrick Moenaert
Walter Nonneman

Christian Viaene, *observer acting in an advisory capacity*

François Fontaine, *Federal government representative acting in an advisory capacity*
Walter Peeraer, *Chairman of the Executive Board and CEO, invited in an advisory capacity*

Nicolas Daubies acts as secretary to the Strategy Committee.

## Audit Committee

Paul De fauw, *Chairman*
Marianne Basecq
Sophie Brouhon
Jean-Jacques Cayeman
André Farber
Henriette Van Caenegem

Nicolas Daubies acts as secretary to the Audit Committee.

## Appointment and Remuneration Committee

Christian Viaene, *Chairman*
Marianne Basecq
Sophie Brouhon
Caroline De Padt
Mireille Deziron
Luc Hujoel
Walter Nonneman

Anne Vander Schueren acts as secretary to the Appointment and Remuneration Committee.

## Corporate Governance Committee

André Farber, *Chairman*
Sophie Brouhon
Luc Janssens
Monique Lievens
Henriette Van Caenegem
Luc Zabeau

Nicolas Daubies acts as secretary to the Corporate Governance Committee.

## Company management

Operational management of the company, including day-to-day operations and representation of the company vis-à-vis third parties, is the responsibility of the Executive Board:

- Walter Peeraer, Chairman of the Executive Board and Chief Executive Officer, also in charge of Audit, Communication, Environment, Human Resources, Internal Workplace Health & Safety, Legal and Company Secretary
- Pascal De Buck, member of the Executive Board and Commercial Director, also in charge of Public Affairs
- Gérard de Hemptinne, member of the Executive Board and Director Asset Management
- Paul Tummers, member of the Executive Board and Director Strategy and Regulatory Affairs
- Peter Verhaeghe, member of the Executive Board and Director Infrastructure Projects & Engineering
- Michel Vermout, member of the Executive Board and Chief Financial Officer

Bérénice Crabs acts as secretary to the Executive Board.


ANNUAL REPORT

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# ANNUAL REPORT

In accordance with the Belgian Company Code, the Board of Directors is pleased to be able to present the annual report for the financial year 2010 for your company and those companies included in its consolidation scope and to submit for your approval the annual accounts for the period ending 31 December 2010.

There have been no subsequent events with a material impact on the financial statements as presented.

**Declaration regarding the financial year ending 31 December 2010**

We hereby attest that to our knowledge:

- Fluxys' financial statements, drawn up in accordance with the applicable accounting standards, give a true and accurate picture of the company's assets, financial position and results and those of the companies included in the consolidation scope;
- the annual report gives a true and accurate description of the business development, results and financial position of the company itself and of those companies included in the consolidation scope, together with a description of the main risks and uncertainties they face.

Brussels, 16 March 2011

Michel Vermout
Member of the Executive Board
Chief Financial Officer

Walter Peeraer
Chairman of the Executive Board
Chief Executive Officer

## 1.1. Key events

### 1.1.1. Results

**Consolidated net profit: €247.7 million (2009: €105.2 million).** The consolidated net profit for the period was €247.7 million, an increase of €142.5 million on that recorded in 2009. The main reasons for this increase were the non-recurring items recorded in 2010, namely:

- the sale of stakes by the group generating a capital gain of k€121,943;
- the additional k€5,658 generated by the closure of the peak-shaving facility at Dudzele (the revenue from which was supplemented by the non-amortized portion of the tariffs within the decommissioned Regulated Asset Base).

**2010 dividend: €336 net per share.** The proposed net dividend per share in 2010 is €336, of which €171 has already been distributed as an interim dividend.

### 1.1.2. Legal and regulatory framework

#### Europe: Third package of legislative measures

In August 2009, the Third Energy Package of legislative measures concerning the internal energy market was published. This package entered into force on 3 March 2011 and comprises:

- a new directive;
- a new regulation on conditions for access to the natural gas transmission networks;
- a regulation on the creation of an Agency for the Cooperation of Energy Regulators (ACER).

**Unbundling requirements.** The Third Gas Directive introduces a clearer separation between production and supply of natural gas and network operation. EU Member States may choose from three systems via which to separate infrastructure operation from production and supply of natural gas. In view of the sale of Electrabel's share in Fluxys to Publigas and its current shareholder structure, Fluxys no longer belongs to a vertically integrated undertaking. Therefor, Belgium can opt for the full ownership unbundling model when transposing the Third Energy Package into national law.

Cooperation between system operators. The Third Gas Directive also promotes greater cooperation between transmission system operators. The European Network of Transmission System Operators for Gas (ENTSOG) was set up to that effect, with Fluxys one of its founding members. Walter Peeraer, CEO and Chairman of the Fluxys Executive Board, is a member of the ENTSOG Management Board.

ENTSOG currently has 33 members and is responsible for publishing a coordinated ten-year investment plan as well as establishing network codes to harmonise grid access rules and facilitate transmission of natural gas between various transmission systems and markets.

European network codes. ENTSOG has been tasked with drafting network codes in 12 fields. Each network code will be based on framework guidelines compiled by ACER. However, since ACER was not operational until 3 March 2011, the European Commission appointed the European Regulators' Group for Electricity and Gas (ERGEG) to draft a set of pilot framework guidelines. These have enabled ENTSOG to start the work on drafting the pilot network codes before ACER drafts the final framework guidelines after 3 March 2011.

Preliminary work is has been done in the following fields:
- Capacity allocation: In December 2010, pilot framework guidelines on the capacity allocation mechanism were published by ERGEG and in January 2011 the European Commission asked ENTSOG to draft the first pilot network code on the subject.
- Grid balancing: In August 2010, the European Commission asked ERGEG to compile pilot framework guidelines on transmission-system balancing. Consultations were ongoing at the time this annual financial report was published.
- Tariffs and interoperability: In 2010 the European Commission identified tariffs and interoperability as new priority topics.

A network code becomes binding when the European Commission, under the comitology procedure, submits it for an opinion to the Gas Committee in which the EU Member States are represented. Subsequently, the proposed code is studied thoroughly by the European Parliament. It gains force of law once it is published as an annex to the Regulation on conditions for access to the natural gas transmission networks.

The aim is to harmonize the way all European network operators handle these fields.

**Amendments to the Regulation on infrastructure-access conditions.** Via a decision by the European Commission dated 10 November 2010, Chapter 3 of Annex I (transparency requirements) of the Regulation on conditions for access to the natural gas transmission systems was amended. Fluxys has adapted its website in line with the amendment and all the required technical information is available since 3 March 2011.

## Security of supply in Europe

**New regulation on security of supply.** On 20 October 2010, a new regulation was published concerning measures to safeguard security of gas supply. This new regulation makes provision for solidarity mechanisms between the Member States to ensure that countries support each other in the event of a supply interruption. The competent authorities in each Member State must conduct a risk analysis of the supply situation and must compile a Preventive Action Plan and an Emergency Plan in consultation with neighbouring countries. The regulation also lays down a supply standard to safeguard natural gas supplies to protected customers.

The regulation places great emphasis on investment in cross-border infrastructure and the possibility of enabling bi-directional flows of natural gas at interconnection points. It also lays down an infrastructure standard, namely that by 3 December 2014 measures must have been taken to ensure that in the event of a disruption to the single largest element of the gas infrastructure, the capacity of the remaining infrastructure can continue to satisfy demand.

Transmission system operators are responsible for the investments in infrastructure, while suppliers are responsible for compliance with the supply standard regarding gas supply to protected customers.

**Support for trans-European infrastructure projects.** Through its European Energy Programme for Recovery (EEPR), the European Commission is seeking to boost investments and modernise European infrastructure. Against this backdrop, the Commission made available funding of €1.4 billion to support trans-European projects such as LNG projects and projects to reinforce interconnection between transmission grids. Fluxys has been awarded €35 million to enhance the east-west axis and €67 million to reinforce the north-south route.

## Implementing the Gas Act

**Appointment of system operators.** On 23 February 2010, three ministerial decrees came into force concerning the appointment, under the definitive regime, of Fluxys as transmission system operator and operator of natural gas storage facilities, and of Fluxys LNG as operator of LNG facilities. The appointments came into effect on 30 May 2010 and are valid for a renewable term of 20 years.

The Third Energy Package of legislative measures introduces a certification procedure in connection with the appointment of system operators. Accordingly, a new procedure for appointing the three operators will need to be introduced once the package has been transposed into Belgian law.

**Draft legislation to amend the Gas Act.** In January 2011, draft legislation was brought before Belgium's Chamber of Representatives tabling a number of amendments to the Gas Act. The proposed amendments concern the certification procedure in connection with the appointment of system operators, alteration of rules governing access to storage facilities and the appointment of the competent authority responsible for ensuring security of natural gas supply. The first debate on the draft legislation took place on Tuesday, 22 February 2011 within the Standing Committee on Economy, Science Policy, Education, National Scientific and Cultural Institutions, Middle Classes and Agriculture.

**Clarification on border-to-border transmission.** The Act of 29 April 2010 alters the legal framework governing border-to-border transmission. Article 15/5 quinquies of the Gas Act, which drew a distinction between the tariff methodologies applicable to border-to-border transmission and to domestic transmission, was repealed for the future (the effects of said article for the past having been annuled by the Constitutional Court in a judgment handed down on 8 July 2010). As a result, one single methodology only is now used to calculate tariffs for both services.

The Act of 29 April 2010 also removes the principle of sanctity of contracts as from 2 March 2011 in view of Directive 2009/73/EC adopted as part of the EU's Third Energy Package. On 21 November 2010, CREG lodged an appeal before the Constitutional Court seeking to have this provision annuled. In late January 2011, Fluxys intervened in the case to support the validity of the provision in question and the removal of the principle of sanctity of contracts as from 2 March 2011. The appeal is pending.

**Code of Conduct.** The Code of Conduct sets out the conditions for access to the natural gas infrastructure. These conditions are a set of operational and commercial rules that lay down the framework within which Fluxys and Fluxys LNG sign contracts with users of the transmission, storage and LNG infrastructure.

The first Code of Conduct was established by the Royal Decree of 4 April 2003. Since 2006, CREG has organised a range of market consultations concerning changes to this existing code. On 15 January 2011, the Royal Decree of 23 December 2010 concerning a new Code of Conduct entered into force and the new code now applies to border-to-border transmission as well.

The new Code of Conduct stipulates that all operators (transmission, storage and LNG terminalling) must compile several documents all of which must be submitted to CREG for approval: access rules, service programmes and service agreements and connection agreements. System users are consulted while the documents are being drafted to ensure that the services offered are tailored as closely as possible to market requirements.

Under the new Code of Conduct, system operators must also appoint a compliance officer to ensure that they fulfil the requirements regarding non-discrimination in terms of grid access. Fluxys has already appointed a compliance officer who is responsible for conducting internal audits and managing the process of following up complaints in the event of any infringement, intentional or otherwise, of the stipulated requirements.

### 1.1.3. Development of activities

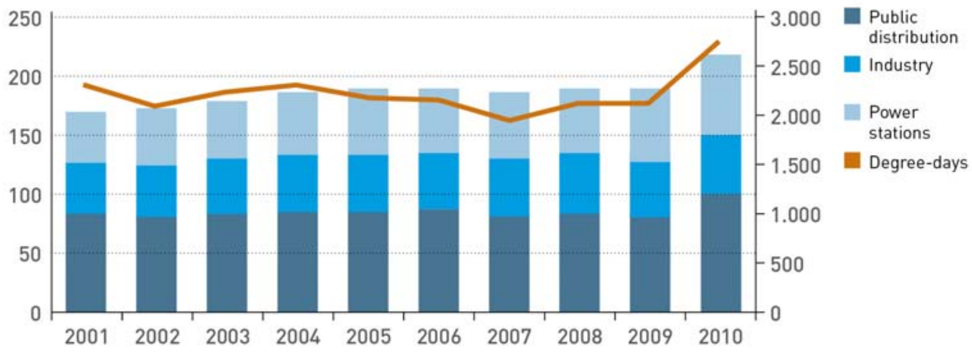
#### Transmission

**Transmission volumes up 7%.** The total volume of natural gas transmitted in 2010 was 7% higher than in 2009. Volumes transmitted for consumption in Belgium were up 11.5% while volumes transported across Belgium for other markets rose by 3.4%. The increase in transmission volumes did not affect turnover since the latter is based on capacity sold.

Due to the economic recovery and the particularly cold winter in 2010, natural gas consumption in Belgium in 2010 totalled 19.5 billion cubic metres, a rise of 11.5% on 2009.

- Consumption by industrial companies directly connected to the Fluxys grid was up approximately 14% on 2009.
- Consumption by power stations in 2010 was up approximately 2.6%.
- Offtake form public distribution companies (downstream distribution of natural gas to SMEs and households), was almost 16.3% higher than in 2009. The rise in consumption was due primarily to the cold winter: in 2010, there were 2,700 degree days (indicator for heating requirements) compared with 2,212 in 2009.

## Consumption on the Belgian market 2001-2010




Natural gas for consumption in Belgium is only a portion of the volumes transported through the Fluxys grid; more than half the total volume of natural gas transmitted is destined for other countries. In 2010, some 24.1 billion cubic metres of natural gas were transported across Belgium compared with 23.3 billion cubic metres in 2009.

**Coldest December since the early 1960s.** December 2010 was not only the coldest month of the decade, but also the coldest December since the early 1960s, when Belgium first began importing natural gas. There have been only four colder months in the last 50 years: January 1963, January 1979, January 1985 and February 1986.

Consumption on the Belgian market in December hit a record of 27,540 GWh of natural gas, 15% more than in December 2009. Industrial companies and power stations directly connected to the Fluxys grid accounted for 30% of total consumption, while the public distribution system, operators carrying natural gas to small and medium-sized enterprises and homes, accounted for the remaining 70%.

While December was the coldest month of the year, the natural gas consumption record for a single day was set on 8 January 2010, with 1,073 GWh consumed. The coldest December day in 2010 was the first day of the month, with consumption totalling 1,062 GWh. Although the record set on 8 January was not broken, consumption by public distribution on 1 and 2 December was higher than that on 8 January.

**Number of transmission customers up.** As at 1 January 2011, 31 system users held a supply licence for domestic transmission. Of these, 14 booked capacity on the Fluxys grid as compared with 13 the previous year. The number of border-to-border transmission customers totalled 50.

**Connection agreement for end customers approved.** The connection agreement formalizes the contractual link between Fluxys and companies directly connected to the Fluxys grid. CREG organised various market consultations on Fluxys' proposal of connection agreement and in January 2010 the document was approved. All end consumers connected to the Fluxys grid received the new connection agreement.

**Upgraded offer of additional flexibility.** Fluxys has developed a new approach to give system users the opportunity to purchase additional flexibility over and above the existing offer. The new approach comes in response to market demand for greater simplicity in managing flexibility portfolios. At the same time, grid utilisation will be optimised as unused capacity will be made available to the market.

**Bundled primary capacity between Zeebrugge Hub and PEG North.** Since 1 November 2010, market participants have been able to buy in one single package cross-border transmission capacity between the Zeebrugge Hub and PEG North spot markets. The primary cross-border capacity is offered via **cap**square, the joint Fluxys/GRTgaz electronic platform for buying and selling capacity. The first monthly capacities became available in December 2010.

**Fluxys and CREG look into introducing a unified entry/exit system.** Following market consultations, Fluxys and CREG have agreed to launch a project to introduce a new access system for the Fluxys natural gas transmission grid by the end of 2012. The new system will grid system users greater flexibility in booking and using capacity in the Belgian grid for the entire range of transmission services.

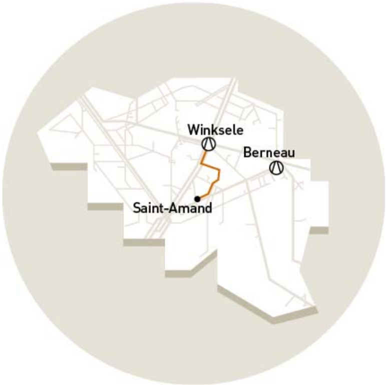
The entry/exit approach will be further enhanced with the introduction of a unified system for the entire range of transmission activities (to Belgian consumers as well as other markets). The new system will take account of the regulatory documents being compiled at European level and the Royal Decree of 23 December 2010 on the code of conduct for access to the natural gas transmission system, while facilitating cooperation and joint service offers with grid operators in neighbouring countries.

To take account of the needs and expectations of the market in terms of grid balancing, the current three balancing zones on the high-calorific natural gas grid will be merged into one single zone with a virtual gas transfer point.

The entry/exit tariff structure, which is already based on a uniform methodology, will be maintained and simplified taking account of the merger of the different balancing zones. The specific features of Zeebrugge, such as its being a physical hub and a crossroads for natural gas in North-Western Europe, will be taken into account.

To draw up the regulatory documents for the new transmission system, additional market consultations will be held with system users, distribution system operators and businesses directly connected to the Fluxys grid. These consultations are to be organised during the second half of 2011 and a consultation on the underlying legal elements of the standard contract will be launched in Q2.

**Enhancing the north-south transmission axis.** In order to assess specifically the need for additional north-south capacity in Belgium, Fluxys launched a market consultation with adjacent system operators in April 2007. Several system users subsequently booked new capacity from Zeebrugge, 's-Gravenvoeren (Belgian-Dutch border) or Eynatten (Belgian-German border) to Blaregnies (French-Belgian border). In the meantime, some system users have revised their capacity towards France downward. Fluxys subsequently also downsized the initial north-south project to avoid overinvestment.




Co-financed by the European Union
European Energy Programme for Recovery

The project for enhancing capacity on the north-south transmission axis has been included in the European Commission's list of priority projects for the development of trans-European energy networks. It has also been earmarked for co-funding through the European Energy Programme for Recovery (EEPR) and the project was awarded €67 million EEPR funding by the Commission.

**Enhancing capacity on the transmission axis to Grand Duchy of Luxembourg.** In June 2009, Fluxys launched a market consultation to assess demand for additional long-term transmission capacity to the Grand Duchy of Luxembourg. By late February 2010, Fluxys had received firm capacity bookings from interested system users totalling 172,000 cubic metres a year for the period 2015-2025. As a result, the existing pipeline between Ben-Ahin and Bras on the transmission axis to Luxembourg is to be replaced (in 2012) by a larger section pipeline.

This investment will ensure security of supply for the Grand Duchy of Luxembourg in the long term and at the same time creates potential for new connections with local distribution networks along the route.

**Fluxys and GRTgaz: open season with a view to developing firm transmission capacity from France to Belgium.** On 31 May 2010, Fluxys and GRTgaz launched a joint open season to assess the level of interest in long-term transmission capacity from France to Belgium. Firm transmission capacity is currently only available from Belgium to France, at the interconnection between the Fluxys and GRTgaz grids at Blaregnies/Taisnières. The project is in part dependent upon the project to build an LNG terminal in Dunkirk. During the initial phase of the market consultation, system users have expressed sufficient interest to launch the binding phase.


Depending on the level of long-term capacity booked by system users, a new interconnection point between France and Belgium could be built at Alveringem (West Flanders) and a pipeline laid between Alveringem and Maldegem to link the new interconnection point with the Zeebrugge area.

## Storage

**Peak-storage activity in the Zeebrugge inner port discontinued.** The market is no longer interested in booking peak LNG storage capacity in the Zeebrugge inner port, even in the medium term: system users have a wide range of more flexible peak-storage capacity services to choose from in North-Western Europe. As a result, peak-storage activity on the site was discontinued on 1 July 2010. All staff involved have been retained and deployed in new roles elsewhere within the company.

**Fluxys explores opportunities for long-term storage.** Against the backdrop of the Loenhout facility facing competition from other flexibility tools suppliers can use on the North-Western European market, Fluxys is exploring the options for system users to book long-term storage capacity. Together with the Belgian federal regulator, CREG, is being looked into how long-term storage capacity might be booked via an open and transparent process accessible for all system users.

The option for suppliers to conclude long-term storage contracts would make Belgium more attractive in terms of additional cross-border natural gas flows and hence strengthen security of supply and the well functioning of the market. Long-term capacity bookings would also provide the basis for research and investment with a view to further enhancing the capacity of the underground storage facility in Loenhout.

Under the current legal framework, when allocating storage capacity Fluxys must give priority to system users supplying public distribution system operators and only yearly contracts can be offered. Amendments to the legal framework are being examined so as to enable long-term contracts for storage as well as offering these on a non-discriminatory basis to the market. Against this background, Fluxys has signed non-binding memoranda of understanding with Gazprom Export and Statoil to investigate the economic and legal feasibility of long-term storage.

**Fluxys launches flexible short-term storage capacity.** The virtual storage service is Fluxys' solution for system users looking for additional short-term flexibility in the Fluxys grid. The service offers system users the opportunity to optimise their portfolio according to natural gas prices, to resolve imbalances between their entry and exit gas flows and to boost flexibility of domestic transmission.

Fluxys has been offering its new virtual-storage service since 1 July 2010. The new service enables system users to almost instantaneously park or lend natural gas in the Fluxys system so as to optimise their supplies to customers or transfers on the Zeebrugge Hub spot market. On 1 December 2010, a binding market consultation was launched for subscribing to a yearly contract for virtual storage from 1 January 2011. It was successful and suppliers have shown interest for the following period.

## LNG terminalling

**71 carriers berthing at the LNG terminal.** 2010 was the second busiest year for the LNG terminal since operations began in 1987: a total of 71 carriers unloaded LNG compared with 78 in 2009, bringing in some 4.58 million tonnes of LNG, which is equivalent to 6 billion cubic metres of natural gas. Most of the 71 ships which berthed were loaded in Ras Laffan, Qatar while others delivered LNG from Norway, Egypt, Nigeria, Peru and Trinidad.

Over a 24-year period, 1,198 LNG ships have been unloaded at the terminal, delivering a total of 68.2 million tonnes of LNG equivalent to 90.8 billion cubic metres of natural gas. In 2010, six carriers were also loaded with LNG. Between the launch of this new service August 2008 and the end of 2010, a total of 16 ships berthed for loading.

**Records set in the Zeebrugge area.** The LNG terminal was particularly busy in August and December 2010. August saw an all-time first with eight LNG ships berthing in one month, including three fully loaded Q-Flex ships, which have a greater capacity (up to 217,000 cubic metres) than conventional LNG carriers. However, that record was broken in December when nine carriers were unloaded.

Although more ships delivered LNG in December 2010 than in August, more LNG was unloaded in August on account of the three full Q-Flex ships among the vessels that berthed. During the course of August, a total of approximately 1.3 million cubic metres of LNG was unloaded, i.e. almost 20% more than during the previous record month of April 2009. The volumes unloaded in Zeebrugge in August correspond to the energy needed to heat 370,000 Belgian homes for an entire year. In December, a little over 1.25 million cubic metres of LNG were unloaded.

The large number of carriers unloading in turn resulted in record high volumes of natural gas being sent-out from the Zeebrugge LNG terminal. This triggered more intensive use of transmission capacity on the Fluxys grid and increased activity on the Zeebrugge Hub. However, since all capacity at the terminal is contracted in the long term, the extra activity has not affected the group's financial results.

**Additional flexibility.** The entire capacity of the LNG terminal is subscribed through long-term contracts on the primary market. If the berthing schedules of ships under these contracts leave sufficient time between two unloading, Fluxys may offer an additional slot on the primary market during that available period.

Where LNG terminal users are unable to use the slots on the primary market reserved for them under their respective contracts, those slots are made available on the secondary market. In 2010, 20 slots were offered for sale on the secondary market.

**Small LNG ship loaded at the LNG terminal in Zeebrugge: a first in Europe.** The loading of a small LNG ship at the LNG terminal in Zeebrugge in May 2010 marked a first in Europe. The ship in question was the *Coral Methane* with a capacity of 7,500 cubic metres of LNG. As a comparison, a conventional LNG ship can carry approximately 20 times this volume.

The loading was a test operation for Fluxys, which sees the development of this business as a fresh opportunity to expand its current service offering at the LNG terminal and to enhance the flexibility of the facility.

**LNG truck loading services offered.** LNG truck loading was introduced in June 2010 as yet another new service available at the LNG terminal. Until recently, in Europe the option of loading trucks with LNG was mainly offered in southern Europe and Scandinavia. Fluxys LNG has now introduced this service in Western Europe. Truck loading services broaden the options for terminal users in terms of destination flexibility for the LNG they have shipped to the terminal.

The terminal's truck loading facility has sufficient capacity to accommodate 4,000 LNG truck loadings per year. Fluxys LNG also offers the service of cooling down LNG trucks. Trucks must first go through a special Approval Procedure, which they pass only after receiving a satisfactory mark for safety and technical compatibility.

**Market consultation on the second capacity enhancement at the Zeebrugge LNG terminal with a view to binding capacity bookings.** In 2007, Fluxys LNG launched an international market consultation to asses the level of interest in additional terminalling capacity at the Zeebrugge LNG terminal. In response, many shippers active in the LNG business registered non-binding interest in a variety of services: discharging carriers with on-board regasification facilities (LNGRVs), loading and unloading of different types and sizes of LNG carriers, additional flexibility and throughput capacity. Starting from this spectrum of demand, Fluxys LNG established the outline for the second capacity enhancement at the terminal:

- together with the Port Authority Zeebrugge, construction of a second jetty for berthing of LNG ships with a capacity from approximately 3,500 cubic metres up to 217,000 cubic metres, to be made available in 2014 (indicative timing);
- construction of an additional storage tank with a capacity of 160,000 cubic metres to be made available in 2016 (indicative timing);

- construction of additional send-out capacity of 450,000 cubic metres (n)/h to be made available in 2016 (indicative timing).

The preliminary studies for the project are co-financed by the European Union via the Trans-European Energy Networks (TEN-E) programme.[1]

In view of the development of LNG regasification terminals in North-Western Europe, this level of investment can only be justified by sufficient bookings for long-term capacity, as was the case for the first capacity enhancement at the Zeebrugge LNG terminal. With this in mind, on 3 February 2011 Fluxys LNG launched the next phase of its market consultation to conclude binding capacity bookings with terminal users by the end of June 2011.

**Preparations for berthing of Q-max carriers.** In 2010, a study was launched into the feasibility of berthing Q-max carriers at the existing jetty. Q-max LNG carriers are the largest LNG ships to date with a capacity of up to 266,000 cubic metres. The findings of the study were positive. Meanwhile, the Port Authority Zeebrugge (MBZ) has begun the permit process and it is anticipated that the LNG terminal will be able to berth Q-max carriers as early as 2011.

[1] Sole responsibility for this publication lies with the author. The European Union shall not be responsible for any use that may be made of the information contained herein.

## 1.1.4. Investment in 2010

### Indicative investment programme 2010-2019

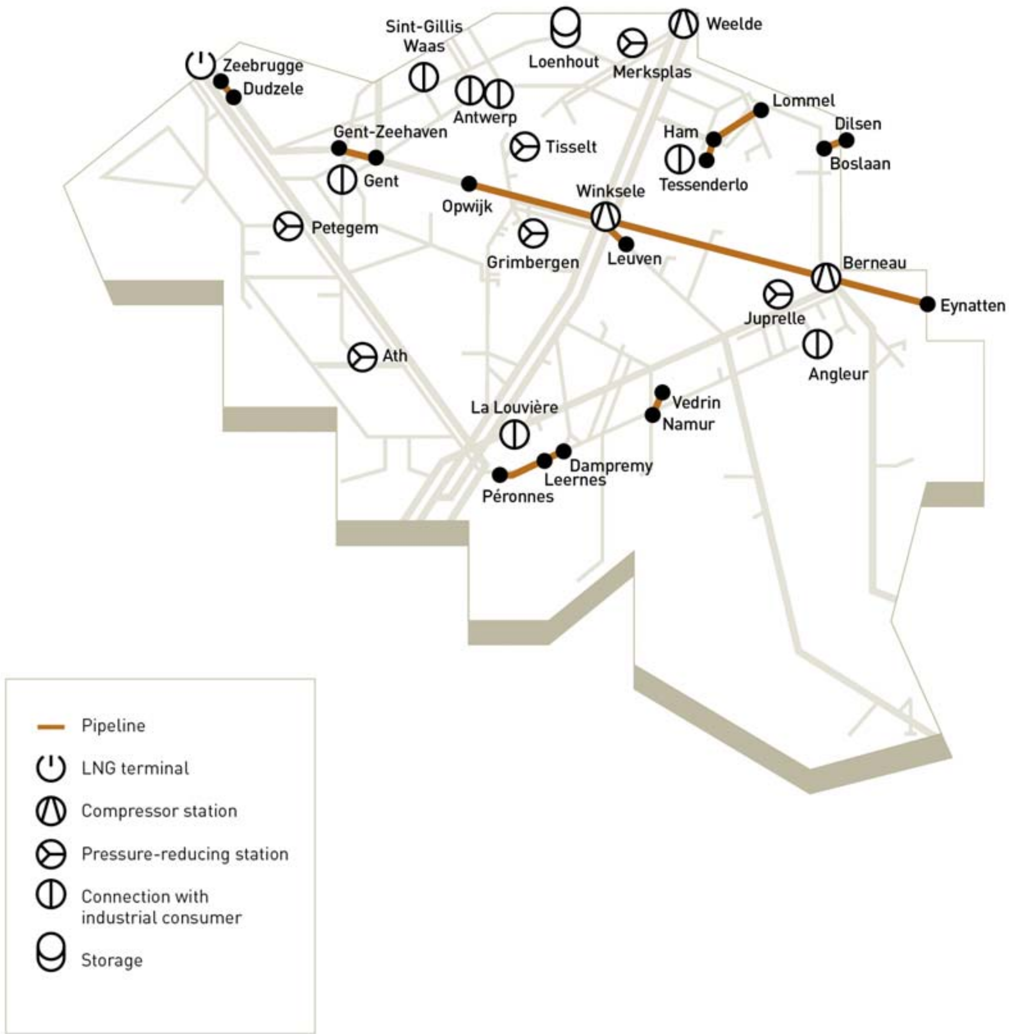
Fluxys' indicative investment programme 2010-2019 currently amounts to a little over €2 billion. The group has planned expenditure of €1.7 billion for the period 2010-2015 alone, i.e. the equivalent of 80% of its investment programme. The programme also has sufficient in-built flexibility to be able to react rapidly to changes on a changing market and thus to avoid unnecessary investment.

The indicative investment programme contains the following key elements:

- maintaining the security, integrity and reliability of the infrastructure;
- opening up the grid to as many sources as possible to ensure maximum diversification, thus contributing to security of supply;
- making new capacity available to cover the expected growth in demand, primarily in the energy sector, for domestic transmission capacity;
- strengthening the role of the Fluxys grid as a crossroads for international natural gas flows in North-Western Europe by making additional border-to-border capacity available as agreed with system users via long-term contracts;
- moving towards a virtual marketplace for the Belgian market via a uniform entry/exit system (see p. 32-33);
- increasing capacity and availability at the Loenhout underground natural gas storage facility;
- systematically reducing the environmental impact of the company's activities;

## 2010: €362 million of investment in infrastructure

In 2010, Fluxys group implemented infrastructure investment projects in Belgium totalling €362 million. Of this amount 85.2% was allocated to transmission projects, 12.6% to storage projects and 2.2% to LNG terminalling projects.



## Laying of new pipelines

**New east-west capacity.** In February 2009, Fluxys decided to build new capacity on the east-west Zeebrugge-Zelzate/Eynatten transmission axis (RTR). This new capacity will enable Fluxys to meet changes in demand on the Belgian market and in neighbouring countries, open up the transmission system to as many natural gas sources as possible and continue to enhance the role of the infrastructure as a natural gas crossroads. The project is broadly based on long-term contracts and involves the construction of a 170-km bi-directional pipeline between Eynatten and Opwijk (RTR2 project) parallel to the existing Zeebrugge–Zelzate/Eynatten pipeline. Work on the RTR2 pipeline began in early 2010 and will be completed in 2011.

As from 1 October 2010, Fluxys customers can use additional transmission capacity in both directions between Zelzate and Zeebrugge and between Eynatten and Zeebrugge. The extra capacity substantially enhances security of supply and also enables additional volumes of natural gas to be transmitted to or from the Zeebrugge spot market. The new transmission capacity is also an opportunity to further enhance liquidity growth at the Zeebrugge Hub.

Since increasing capacity on the east-west axis marks a major step in consolidating security of supply in Europe, the European Commission has included the RTR2 project in its list of priority projects for the development of trans-European energy networks. The project has also been earmarked for co-funding through the European Energy Programme for Recovery (EEPR) and as such the European Commission has awarded Fluxys funding of €35 million.

**Co-financed by the European Union**
**European Energy Programme for Recovery**

**Opwijk-Zomergem.** To meet additional demand for capacity, Fluxys is also planning to lay a further pipeline alongside the RTR route between Opwijk and Zomergem. Work on laying the 6-km Ghent–Zeehaven section began in 2010 and the remaining sections are to be laid between 2013 and 2014.

**Dilsen-Boslaan.** In 2010, Fluxys completed work on laying an 8-km pipeline in Dilsen to shore up security of supply in the North Limburg region.

**Lommel–Ham–Tessenderlo.** In 2010, Fluxys completed work to lay the 24-km Lommel-Ham-Tessenderlo pipeline, which will supply the new CCGT power station on the premises of Tessenderlo Chermie.

**Warisoulx–Vedrin–Namur.** In 2009, Fluxys began laying a new pipeline linking Warisoulx and Namur via Vedrin to shore up supply in the Meuse Valley. The 3-km section between Warisoulx and Vedrin came into operation in 2009 and the remaining 4-km section between Vedrin and Namur in 2010.

**Péronnes–Leernes–Dampremy.** In 2010, Fluxys began work in the La Louvière and Charleroi region to lay a new 27-km pipeline between Péronnes and Damprémy via Leernes to connect Marcinelle Energie's power station in Marcinelle. The pipeline came into operation spring 2011.

**Dudzele-Zeebrugge.** A new 800-m pipeline has been laid in Bruges between Dudzele and Zeebrugge to shore up supply to public distribution.

**Leuven.** In late 2010, Fluxys began laying a new 2.4-km pipeline in Leuven to connect AB-Inbev.

## Works at compressor stations

**Additional compression capacity and second pressure-reducing station in Berneau.** The enhancement works at Berneau will make it possible to combine gas flows on the east-west and north-south axes more flexibly. Additional compressor facilities are being built with a view to completing the works in 2011. The new facilities will make it possible to increase the pressure of natural gas from the 's-Gravenvoeren-Blaregnies pipeline for onward transmission via the RTR (Zeebrugge-Zelzate/Eynatten) pipeline.

A second pressure-reducing facility was completed in 2010 to enhance existing pressure-reducing capacity for transfers from the RTR pipeline (Zeebrugge-Zelzate/Eynatten) to the SEGEO pipeline ('s-Gravenvoeren-Blaregnies), which operates at a lower pressure.

The investment at the Berneau compressor station also fits in with future developments towards a virtual market for high-calorific natural gas via a uniform entry/exit system. In the longer run, additional firm capacity could be offered from the entry point at 's-Gravenvoeren.

**Replacement of compression capacity at Weelde.** In 2010, a proportion of the compression capacity at Weelde was replaced. The three new machines initially came online in early September 2010 and following reliability and performance testing have been fully available to the transmission system since November 2010. They are equipped with the very latest technology offering greater efficiency and lower $NO_x$ emission levels.

**Enhancing capacity at the Winksele compressor station.** The compressor station at Winksele lies at the crossroads of the major north-south and east-west transmission axes. The existing station repressurises natural gas on the north-south axis to a sufficient level to ensure that the Belgian grid can operate efficiently.

In early 2011, work began to construct four additional compressor units at Winksele to maintain pressure levels in the east-west axes RTR1 and RTR2. The expansion will shore up security of supply in Belgium and will also make it possible to combine natural gas flows on the east-west and north-south axes more flexibly. Construction of the additional units is scheduled to be completed by the end of 2012.

Works are also being carried out on the existing compressor station, including those to construct a new administrative building.

## Works at the LNG terminal in Zeebrugge

**Construction of an open rack vaporizer.** In the framework of the environmental licence for the first capacity enhancement of the LNG terminal in Zeebrugge, over the past few years Fluxys has been looking at whether it would be conceivable to complement the regasification facilities with an open rack vaporizer (ORV). The ORV, which regasifies LNG using the heat present in seawater, can considerably reduce energy consumption as well as carbon dioxide and nitrogen dioxide emissions.

In 2009, Fluxys decided to invest in the construction of an ORV and initiated discussions with the relevant federal and regional authorities. The competent authorities issued the environmental permit for the ORV project in July 2010 and work got under way in the autumn. The facility could be commissioned by the beginning of 2012 at the earliest.

## Works at the Loenhout storage facility

**Capacity enhancement at the storage facility at Loenhout.** Since 2007, Fluxys has been carrying out work to gradually increase the workable storage capacity at Loenhout by 15% over a period of four years (2008-2011) from 600 million to 700 million cubic metres (total volume of 1.4 billion cubic metres). Workable storage capacity reached 675 million cubic metres in 2010. Utilisation flexibility of the underground storage facility is being enhanced: sendout capacity will increase from 500,000 to 625,000 cubic metres an hour, in part, thanks to the construction of a new sendout platform, while injection capacity will rise from 250,000 to 325,000 cubic metres an hour due to the construction of an additional compressor.

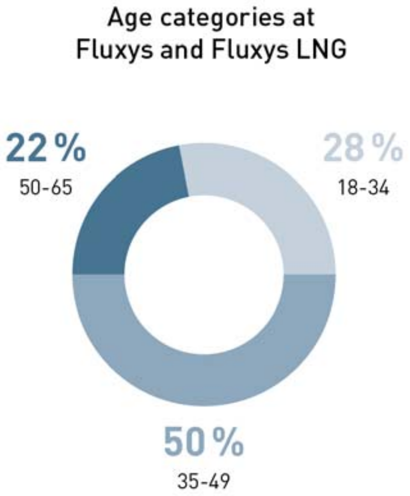
## Developments in the industrial segment

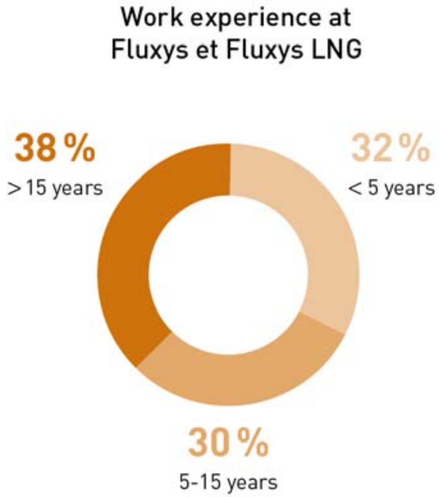
In late 2010, the Fluxys grid comprised 251 direct connections with industrial consumers, power stations and cogeneration facilities. During the course of the year seven new connections were added: a CHP plant belonging to Evonik Degussa in Antwerp, a CHP plant belonging to BRC in Antwerp, Algist Bruggeman in Ghent, Duferco in La Louvière and Tomw@tt in Sint-Gillis-Waas respectively, and power stations belonging to SPE in Angleur and T-Power in Tessenderlo. A total of 24 of the industrial end users switched supplier.

## Pressure-reducing stations for distribution system operators

In 2010, Fluxys built a new pressure-reducing station in Juprelle for the distribution system operator. Construction of pressure-reducing stations in Merksplas and Ath respectively, which began in 2009, was completed in 2010, while major adaptations have been made to the stations in Petegem, Grimbergen and Tisselt.

## 1.1.5. Staff trends




Recruitment. In 2010, Fluxys and Fluxys LNG welcomed 35 new members of staff. With 1.061 staff members, Fluxys has achieved its goal of overall growth and is now concentrating on keeping staff numbers stable. This stabilisation policy may be reviewed if the scope of Fluxys' activities changes.

Although fewer staff were recruited in 2010 than in 2009, Fluxys nevertheless created almost 90 vacancies – which is no mean feat in recruitment terms.

## 1.1.6. Research and development

**Applied research.** Fluxys runs various applied-research projects and works closely with the *Association Royale des Gaziers Belges* (ARGB/KVBG, the technical association of the Belgian gas industry) and other European gas companies under the umbrella of various national and international organisations such as the European Gas Research Group (GERG), the European Committee for Standardisation (CEN), the International Organisation for Standardisation (ISO), the European Association for the Streamlining of Energy Exchange – Gas (EASEE-GAS) and Marcogaz, the Technical Association of the European Natural Gas Industry. In 2010, Fluxys was involved in key research and development projects in the fields of metrology, monitoring pipeline status, exchange of operational data and ICT applications for customers.

### Metrology

- In the context of environmental activities, a working group drafted an international standard against which to measure carbon dioxide levels. A similar working group was established to measure methane ($CH_4$) emissions. This group has compiled an initial inventory of methods currently used to measure methane emissions and is looking into what specific methods are appropriate for measuring emissions on natural gas transmission systems. A similar working group was set up to focus on $NO_x$.
- Fluxys was involved in tests on using a laser molecular assessment system to detect and measure natural gas released into the air. In a later phase, the system can be adapted for market use.

### Pipeline condition

- Fluxys systematically inspects its pipelines using 'intelligent pigs', measuring instruments which are inserted into a pipe and pushed through with the natural gas flow. However, in some pipelines, such pigs cannot be used and in 2010 Fluxys conducted research into external measuring methods using ultrasonic or magnetic waves.The tests revealed that such equipment is currently not a viable alternative to internal inspections using intelligent pigs.
- Fluxys took part in research into a theoretical model to detect potential corrosion on, among others, pipelines. The model could be a suitable additional detection method alongside existing methods involving sampling and internal inspection using 'intelligent pigs'.

- Fluxys is taking part in comparative tests involving acoustic detection of shocks close to pipelines. Acoustic detection could help to detect damage to pipelines caused by third parties.
- Fluxys also completed the first phase of a study to investigate a new method of protecting pipelines from corrosion induced by stray alternating current, for instance in the vicinity of high-voltage power lines. This research will continue.
- Fluxys also pressed ahead with its project to assess pipeline coating. The study is comparing the polyethylene routinely used at present with fusion bound epoxy, specifically in terms of durability, flexibility and resistance to corrosion.

### Exchange of operational data

- With a view to optimising data exchange between natural gas companies, further steps were taken to facilitate secure Internet communication across Europe and to standardise such communication within the gas sector.
- Fluxys is helping to compile international protocols and standards regarding electronic data exchange between natural gas companies with a view to rolling out a harmonised Europe-wide system.

### ICT applications for customers

Since the grid was opened up to multiple system users in 2004, Fluxys has seen existing applications develop considerably in the new multi-customer environment. Since then, Fluxys has continued to refine and expand its applications and in 2010 the main challenge was that of devising mathematical optimization solutions for the new border-to-border transmission model. After all, this model affects the entire process, from capacity-allocation right through to invoicing, as well as grid simulations, nominations, allocation and management of natural gas flows. Against this backdrop and in close cooperation with the *Université Libre de Bruxelles* (Brussels Free University), the basic components of a specific algorithm have been drawn up to determine the most efficient way of processing and confirming capacity nominations.

# 1.2. Financial situation

## 1.2.1. Fluxys group – 2010 results (IFRS)

### Consolidation scope

#### Acquisitions

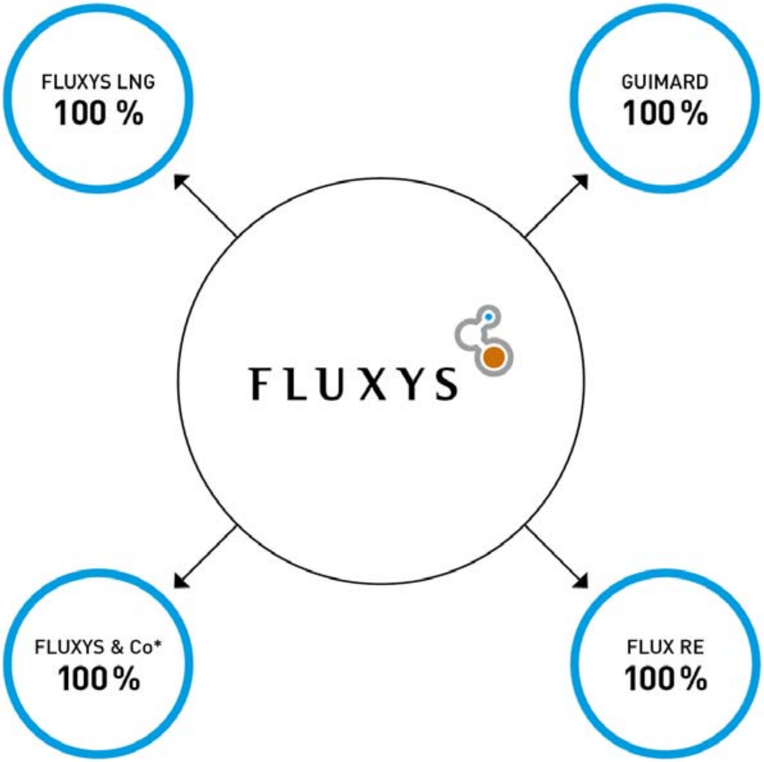
Fluxys LNG: Fluxys SA acquired Electrabel's 6.8% stake in Fluxys LNG. The latter, which provides terminalling services, thus became a wholly owned subsidiary of Fluxys SA with effect from 1 January 2010 in the consolidated financial statements.

Guimard SA: The Fluxys group acquired all shares in the company Guimard SA with effect from 1 April 2010 in the consolidated financial statements.

#### Restructuring of the Fluxys group

As announced on 30 June 2010, Fluxys and its majority shareholder Publigas have restructured the Fluxys group. Publigas established Fluxys G (initially Fluxys Holding), a wholly owned subsidiary, to which Publigas transferred its entire 89.97% stake in Fluxys SA on 10 September 2010.

Fluxys subsequently effected the following transactions:
- sale to Fluxys G of its stake in Fluxys Europe BV (formerly Fluxys NL), comprising stakes in Fluxys Deutschland, BBL and Interconnector (the latter two each operating a pipeline between continental Europe and the United Kingdom);
- sale to Fluxys G of its stake in Fluxys Finance SA (formerly Fluxys Europe), responsible for managing Fluxys G's cash funds and financing;
- sale to Fluxys Europe BV of its stakes in Huberator SA (operator of the Zeebrugge Hub spot market), Gas Management Services Ltd (provider of operational support services for natural gas companies active on transmission grids), APX-Endex Holding BV (group of international natural gas and electricity exchanges) and C4Gas SAS (platform for purchasing gas equipment).




Consolidated companies

* Huberator SA holds 1 share in Fluxys &Co.

## Summary of consolidated income

| Summary of consolidated income | 31-12-2010 | 31-12-2009 |
|---|---|---|
| In thousands of euro | | |
| Revenue | 657,715 | 688,030 |
| Other operating income | 11,488 | 8,360 |
| Consumables, merchandise and supplies used | -34,262 | -30,332 |
| Miscellaneous goods and services | -144,091 | -159,562 |
| Employee expenses | -119,881 | -114,615 |
| Other operating expenses | -39,165 | -9,514 |
| Net depreciation and amortisation | -115,865 | -122,830 |
| Net provisions | -243 | -77,468 |
| Impairment losses | 1,998 | -115 |
| Profit from continuing operations | 217,694 | 181,954 |
| Gain/loss on disposal of financial assets | 121,943 | 198 |
| Change in the fair value of financial instruments | 828 | 668 |
| Financial income | 18,578 | 11,603 |
| Finance costs | -52,728 | -40,554 |
| Profit from continuing operations after net financial result | 306,315 | 153,869 |
| Income tax expense | -58,625 | -48,712 |
| Net profit for the period | 247,690 | 105,157 |
| | | |
| Fluxys share | 247,355 | 103,242 |
| Non-controlling interests | 335 | 1,915 |
| | | |
| Basic earnings per share attributable to equity holders of the parent in € | 352.0 | 146.9 |
| Diluted earnings per share attributable to equity holders of the parent in € | 352.0 | 146.9 |

| Statement of comprehensive income | 31-12-2010 | 31-12-2009 |
|---|---|---|
| In thousands of euro | | |
| Net profit for the period | 247,690 | 105,157 |
| Actuarial gains/losses on provisions for post-employment benefits | 3,738 | 5,203 |
| Translation adjustments | 97 | 511 |
| Income tax expense on other comprehensive income | -1,271 | -1,768 |
| Other comprehensive income | 2,564 | 3,946 |
| Comprehensive income for the period | 250,254 | 109,103 |
| Fluxys share | 249,919 | 107,181 |
| Non-controlling interests | 335 | 1,922 |

**Operating revenue.** Operating revenue for 2010 was €657,715 thousand compared with €688,030 thousand in 2009, i.e. a decrease of €30,315 thousand.

- Revenue from transmission activities was down on 2009. As a reminder, the new multi-annual natural gas transmission and storage tariffs have been in place for all system users since 1 January 2010. These tariffs are amongst the most competitive in Europe and are significantly lower than those applied in 2009, which explains the change in revenue from transmission activities. Revenue from storage activities rose on account of a non-recurring item, namely the decision to close the peak-shaving facility in Dudzele. Pursuant to tariff legislation, the decommissioning costs as well as the non-depreciated portion in the tariffs within the decommissioned Regulated Asset Base were booked as regulatory assets.
- Revenue from LNG terminalling remained at a similar level to that of 2009. Terminalling tariffs are also amongst the most competitive in Europe.
- Other operating revenue includes a number of services up to 30 September 2010, the date on which Fluxys Europe, Huberator and GMSL withdrew from Fluxys SA. The corresponding decline of €7,284 thousand is due mainly to the aforementioned changes in the consolidation scope.

**Consolidated net profit.** The consolidated net profit for the period was €247.7 million, an increase of €142.5 million compared to 2009. The main reasons for this increase were the non-recurring items recorded in 2010, namely:

- the sale of stakes by the group generating a capital gain of €121,943 thousand;
- the additional €5,658 thousand generated by the closure of the peak-shaving facility at Dudzele, increased by the non-depreciated portion in the tariffs within the decommissioned Regulated Asset Base.

## Summary of consolidated balance sheet

| Assets | In thousands of euro | |
|---|---|---|
| | 31-12-2010 | 31-12-2009 |
| **I. Non-current assets** | **2,827,466** | **2,739,610** |
| Property, plant and equipment | 2,444,505 | 2,326,330 |
| Intangible assets | 295,353 | 296,485 |
| Goodwill | 0 | 3,465 |
| Other financial assets | 39 | 84,242 |
| Finance lease receivables | 27,370 | 29,088 |
| Loans and receivables | 60,199 | 0 |
| **II. Current assets** | **724,267** | **704,555** |
| Inventories | 51,902 | 67,851 |
| Other current financial assets | 24,368 | 23,250 |
| Finance lease receivables | 1,718 | 1,395 |
| Income tax receivables | 2,525 | 4,838 |
| Trade and other receivables | 59,998 | 64,511 |
| Short-term investments | 18,592 | 16,025 |
| Cash and cash equivalents | 559,173 | 514,389 |
| Other current assets | 5,991 | 12,296 |
| **Total assets** | **3,551,733** | **3,444,165** |

**Non-current assets.** The increase in non-current assets is mainly due to investments in property, plant and equipment during the year (€392,576 thousand), less depreciation, disposals and withdrawals, changes in the consolidation scope (€107,022 thousand) and subsidies received (€34,430 thousand). Most of these investments were in transmission (€308,642 thousand) and storage (€45,720 thousand).

The decline in other financial assets (down €84,203 thousand) is due to the rearrangement of the group structure as detailed above and the associated withdrawal of the stake in Interconnector (UK) Ltd.

In 2010, the item Loans and receivables posted primarily the regulatory assets linked to the decommissioning of the peak-shaving facility in Dudzele (€50,583 thousand).

**Current assets.** The rise in current assets is due mainly to an increase in cash (up €47,351 thousand) as a result of the rearrangement of the group structure, following which the group netted €322.6 million from the sale of subsidiaries. However, Fluxys SA distributed the corresponding surplus of €160.2 million in the form of an interim dividend in December 2010.

| Equity and liabilities | In thousands of euro | |
|---|---|---|
| | 31-12-2010 | 31-12-2009 |
| **I. Equity** | **1,400,717** | **1,388,995** |
| Equity attributable to equity holders of the parent company | 1,400,716 | 1,369,083 |
| Share capital and share premiums | 60,310 | 60,310 |
| Retained earnings | 1,340,406 | 1,309,992 |
| Translation adjustments | 0 | -1,219 |
| Non-controlling interests | 1 | 19,912 |
| **II. Non-current liabilities** | **1,761,342** | **1,659,646** |
| Interest-bearing liabilities | 1,161,314 | 1,040,580 |
| Provisions | 29,016 | 23,542 |
| Provisions for employee benefits | 58,925 | 65,165 |
| Deferred tax liabilities | 512,087 | 530,359 |
| **III. Current liabilities** | **389,674** | **395,524** |
| Interest-bearing liabilities | 86,366 | 81,998 |
| Provisions | 178,796 | 178,232 |
| Provisions for employee benefits | 3,965 | 4,342 |
| Other current financial liabilities | 3,005 | 3,806 |
| Income tax payables | 15,129 | 11,717 |
| Current trade and other payables | 100,314 | 113,034 |
| Other current liabilities | 2,099 | 2,395 |
| **Total equity and liabilities** | **3,551,733** | **3,444,165** |

**Equity.** (see table 'Change in equity' below)

**Non-current liabilities.** The rise in interest-bearing debts (up €120,734 thousand) is due in part to the issue of commercial papers worth €47,985 thousand and in part to an increase in regulatory liabilities.

**Current liabilities.** The decline in current liabilities is due mainly to changes in 'Current trade and other payables' (down €12,720 thousand), having been affected by the receipt of a significant number of investment invoices in December 2009.

## Statement of changes in equity

| Change in equity | | | In thousands of euro |
|---|---|---|---|
| | Equity attributable to equity holders of the parent company | Non-controlling interests | Total equity |
| **CLOSING BALANCE AS AT 31-12-2009** | **1,369,083** | **19,912** | **1,388,995** |
| 1. Profit for the period | 247,355 | 335 | 247,690 |
| 2. Other comprehensive income for the period | 2,564 | 0 | 2,564 |
| 3. Dividends paid | -209,386 | -450 | -209,836 |
| 4. Changes in the consolidation scope | -8,900 | -19,796 | -28,696 |
| **CLOSING BALANCE AS AT 31-12-2010** | **1,400,716** | **1** | **1,400,717** |

As at 31 December 2010, equity held by equity holders of the parent company totalled €1,400,716 thousand. The increase of €31,633 thousand compared with 2009 is due primarily to the comprehensive income for the period attributable to equity holders of the parent company (€249,919 thousand), less dividends paid in 2010 (€49,185 thousand) pursuant to a decision by the Annual General Meeting of Fluxys SA, the interim dividend paid in December 2010 (€160,201 thousand) and the effects of the acquisition of the 6.8% non-controlling interest in Fluxys LNG (€8,900 thousand).

Non-controlling interests fell by €19,911 thousand following the purchase by the group of a 6.8% non-controlling stake in Fluxys LNG and the sale of Huberator.

## Summary table of cash-flow

| Summary table of cash-flow | In thousands of euro | |
| --- | --- | --- |
| | 31-12-2010 | 31-12-2009 |
| Cash at the start of the period* | 530,414 | 166,658 |
| Cash flows from operating activities (1) | 279,745 | 354,363 |
| Cash flows used in financing activities (2) | -16,939 | -312,070 |
| Cash flows used in investing activities (3) | -215,455 | 321,463 |
| Increase/decrease in cash | 47,351 | 363,756 |
| Cash at the end of the period* | 577,765 | 530,414 |

*(1) Cash flows from operating activities also include changes in the working capital requirement.*
*(2) This amount also takes into account disinvestments.*
*(3) These include dividends paid.*

* 'Cash' includes cash, cash equivalents and short-term investments. In 2010, the level of cash posted at the end of the period was due to the sale of subsidiaries.

## Indicators

| Indicators | 2010 | 2009 |
|---|---|---|
| **RAB (in million €)** | | |
| Transmission | 1,955.7 | 1,625.1 * |
| Storage | 257.6 | 239.5 |
| LNG terminalling | 308.7 | 299.7 |
| **WACC before taxes (in %)** | | |
| Transmission | 6.66 | 7.16 |
| Storage | 6.82 | 7.42 |
| LNG terminalling | 6.85 | 7.64 |
| | | |
| EBIT (in million €) | 217.7 | 182.0 |
| Net Financial debt (in million €) | 669.9 | 592.2 |
| ROCE (in %) | 6.90 | 5.98 |

EBIT: earnings

ROCE: return on capital employed

** The indicators' table of the Fluxys annual financial report of 2009 mentions the RAB figure for domestic transmission only. In the interest of comparability of figures, the 2009 figure for the RAB for transmission in this table includes just like the 2010 figure both domestic and border-to-border transmission.*

## 1.2.2. Fluxys SA – 2010 results (Belgian GAAP)

Fluxys SA's net result was €267.7 million compared with €65.9 million in 2009. As previously stated, the result for the period was boosted by both non-recurring items, namely the surplus yielded as a result of the rearrangement of the group structure, and the positive influence of the recovery of the non-depreciated portion of the Regulated Asset Base in connection with the closure of the peak-shaving facility at Dudzele.

Factoring in a profit of €56.6 million carried forward from the previous period and a withdrawal from reserves of €43.6 million, the Board of Directors will propose to the Annual General Meeting to allocate profits as follows:

- €53.1 million to profit to be carried forward
- €314.8 million as a dividend to shareholders

If this proposal is accepted, the gross dividend per share in 2010 will be €448 (€336 net), of which €228 (€171 net) has already been distributed as interim dividend. The remaining €220 (€165 net) will be payable as from 19 May 2011.

The increase in the 2010 dividend compared with the 2009 dividend is due in part to the significant non-recurring items detailed above and in part to the introduction of a new profit-distribution policy as from 2010. The Board of Directors decided to propose distributing the entire net result for the period, plus (barring unforeseen circumstances) the revaluation surplus on tangible assets as and when they depreciate. This new profit-distribution policy should enable Fluxys to gear its financial structure into an equity/borrowed funds ratio more in line with the regulatory framework by which its activities are governed.

As a reminder, the 2010 dividend (excluding non-recurring items) was €123 net per share.

## 1.2.3. Outlook 2011

Bearing in mind the regulated nature of its activities and barring any unforeseen circumstances, Fluxys expects to pay out a dividend in 2011 that is similar to that distributed in 2010 (excluding non-recurring items).

In view of the impact of interest rates (OLO) on the company's fair margin, the recurring dividend is likely to follow interest-rate changes more closely than in the past.

## 1.2.4. Activities and results of subsidiaries

Restructuring of the Fluxys group (see p. 77-80). In 2010, Fluxys and Publigas have rearranged the group's structure. As a result, Fluxys Finance SA (formerly Fluxys Europe SA), Huberator SA, Gas Management Services Limited, Fluxys Europe BV (formerly Fluxys NL BV), Interconnector (UK) Limited, Fluxys BBL BV, BBL Company VOF, C4Gas SAS and APX-Endex Holding BV no longer belong to the group Fluxys SA but have been incorporated into Fluxys G. Apart from the restructuring, the subsidiary Belgian Pipe Control was dissolved. As such, the group's consolidation scope now comprises Fluxys LNG SA, Fluxys & Co SA, Flux Re and Guimard SA.

Fluxys LNG SA (consolidated subsidiary – Fluxys stake 100%)
Fluxys LNG owns and operates the LNG terminal in Zeebrugge and sells terminalling capacity and related services. 2010 was the second busiest year for the LNG terminal since operations began in 1987: a total of 71 ships unloaded LNG compared with 78 in 2009. The terminal experienced particularly high levels of activity in August and December with, for the very first time, eight ships unloading in August and nine in December. A total of six ships were loaded in 2010 as compared with four in 2009.

Fluxys LNG's equity was €243.8 million at 31 December 2010, compared with €318 million in 2009. The net profit for the financial year 2010 was €15.8 million, compared with €21.6 million in 2009.

**Fluxys & Co SA** (consolidated subsidiary – Fluxys stake 99.98%)
Fluxys & Co holds assets comprising a 49% stake in the Partrederiet BW Gas Fluxys DA established under Norwegian law and is owner of the LNG carrier *BW GDF-Suez Boston* and retains the rights and obligations associated with pending disputes in regulatory and tax matters.

Fluxys & Co's equity was €0.1 million at 31 December 2010. The net result for the financial year 2010 was €6.8 million.

**Flux Re** (consolidated subsidiary – Fluxys stake 100%)
Flux Re is a reinsurance company established under Luxembourg law set up on 18 October 2007.

Flux Re's equity was €4.8 million at 31 December 2010, the same figure as in 2009.

**Guimard SA** (consolidated subsidiary – Fluxys stake 100%)
Guimard is a public limited company wholly owned by Fluxys. It owns the building Fluxys uses to house some of its central services.

Guimard's equity was €3.5 million at 30 June 2010.

**Belgian Pipe Control SA** (dissolved)
Belgian Pipe Control (BPC) was responsible for low-level maintenance and inspection of pipelines belonging to third parties and used for the transmission of products other than natural gas. In December 2009, the contracts in force between BPC and *Nationale Maatschappij der Pijpleidingen* (the Belgian national pipeline transportation company, SNTC-NMP) were terminated effective 1 January 2010. After its activities were wound up, on the proposal of the Board of Directors the Annual General Meeting dissolved and liquidated the company.

## 1.2.5. Risk management

### Market risks and financial instruments

**Exchange risk.** A small percentage of Fluxys' current revenue is denominated in a currency other than euro, primarily US dollars. Since Fluxys presents its consolidated results in euro, a fluctuation in the exchange rate between the euro and the US dollar is likely to affect Fluxys' income statement and consolidated balance sheet when foreign currencies are converted into euro. However, such fluctuations are marginal relative to the volume of revenue concerned. Furthermore, to limit this kind of exchange risk, some such cash flows are covered in the form of forward contracts concluded by Fluxys for the purchase and sale of currencies.

**Counterparty risk.** Since the restructuring of the Fluxys group, cash surpluses belonging to Fluxys SA have been deposited with Fluxys Finance as part of the Fluxys G group's policy of centralising cash funds. In terms of Fluxys Finance, the risk of counterparties defaulting is very small, since Fluxys Finance invests the cash surplus either with prominent financial institutions or in the form of financial instruments issued by companies with high ratings, or, indeed, in financial instruments issued by companies in which the Belgian government is the majority shareholder or which are underwritten by an EU Member State.

### Financial risks linked to commercial transactions

The group's policy on financial risks linked to commercial transactions allows it, for most of its activities, to demand guarantees from its counterparties on a contractual basis. These can take the form of either a bank guarantee or a cash deposit. Fluxys closely monitors the commercial debts owed to it and systematically assesses the financial capacity of its counterparties. The risk of default is therefore limited but Fluxys cannot rule out such a risk completely or, by extension, a potential negative impact on its financial situation.

**Internal control.** Financial reporting within Fluxys is subject to internal control to ensure that details of the group's financial accountability are as accurate as possible. Fluxys applies the COSO model as its reference framework for internal monitoring and risk management (see p. 87) and Fluxys assesses on a regular basis the quality and efficiency of its internal control.

## Retirement scheme

Some Fluxys employees are covered by a fixed-benefit pension scheme and others by a fixed-contribution pension scheme. The fixed-benefit pension scheme is a scheme whereby the level of benefits is determined by several factors such as age, duration of career, salary and/or guaranteed return on contributions paid. Estimates of the level of contributions are based on several actuarial scenarios and other factors such as actual and forecast performance of the pension fund, long-term rates and life expectancy.

If, at a given year-end, the fair value of assets held in a fixed-benefit pension scheme is less than the benefit to be paid out (determined on the basis of actuarial scenarios), Fluxys runs the risk of under-financing, which could result in it being required to fund additional contributions. Such a risk of under-financing is currently covered via provisions set aside in Fluxys' consolidated accounts. However, in the future, this risk could prompt the need for additional provisions and therefore impact on Fluxys financial situation.

## Operational risks

The main activities in which Fluxys is involved are transmission and storage of natural gas and operations at the LNG terminal in Zeebrugge. Given the nature of the product Fluxys transports, the company handles an inclusive safety and security policy.

**Risks linked to the operation of Seveso sites.** Fluxys and Fluxys LNG operated three Seveso sites in 2010: the LNG terminal and the peak-shaving facility in Zeebrugge and the underground storage facility in Loenhout. In accordance with Seveso legislation, Fluxys and Fluxys LNG pursue a proactive risk-management policy covering well-being at work, industrial safety and the environment. In July 2010, all activities at the peak-shaving facility were discontinued.

**Damage to infrastructure caused by third parties.** Serious pipeline incidents arise mainly from damage caused by third parties. To avoid such damage, anyone planning or wanting to carry out work in the vicinity of natural gas transmission infrastructure is legally obliged to notify Fluxys in advance. Fluxys then confirms whether or not any natural gas transmission infrastructure is located in the vicinity of the works. If this is the case, the applicant is sent all relevant information and details of further procedures to be followed to carry out the work safely. Fluxys also plays an active role in initiatives to keep the notification requirement threshold as low as possible.

Fluxys inspectors in the field check the pipeline routes and assist contractors working in the vicinity of natural gas transmission infrastructure. They also check, among other things, that no-one is conducting work in the vicinity of a pipeline about which Fluxys has not been informed.

Fluxys regularly evaluates this integrated administrative and operational approach to works by third parties to identify ways in which it can be improved. The company also implements an active awareness-raising policy on safety issues for local authorities and all parties involved in works close to its natural gas transmission infrastructure.

**Damage to infrastructure caused by Fluxys works.** Damage can also be caused while Fluxys is carrying out works to commission or repair infrastructure. All incidents or near-incidents are investigated thoroughly and remedial action is taken in a timely manner to prevent such incidents from recurring.

**Corrosion.** Fluxys' pipelines have an external synthetic coating system to prevent them from corroding and the pipeline network as a whole is fitted with a cathodic protection system to prevent and monitor pipeline corrosion. If feasible, the pipelines are also systematically inspected internally using intelligent pipeline integrity gauges.

**Environmental impact.** The natural gas transmission infrastructure has a minimal impact on the environment compared with other forms of transmission and Fluxys' environmental policy focuses on systematically reducing that minimal impact further still (see also Environment, p. 145-151).

**Availability of new capacity on time.** Establishing pipeline routes in a densely populated country like Belgium is becoming ever more complex and a range of permitting procedures and laws need to be taken into consideration. There is also the problem of the distribution of powers between the federal, regional and local governments. These circumstances result in lead times of five or six years to implement an infrastructure project of any scale. In many cases that is longer than the time-frame within which the market requires new capacity. With this in mind, Fluxys launches permitting procedures, and the preparations for such procedures, as soon as it can and tries to provide transparent information to the municipal authorities, local residents and other relevant parties from the very preliminary stages. Given the time periods involved and despite preparing development files as quickly as possible, Fluxys could in the future be required to invest funds (e.g. to purchase pipes) before obtaining permits.

**Technical risk.** Shortcomings in transmission systems and IT systems used to manage the gas system may give rise to malfunctions in the natural gas transmission system. These systems can have failures caused by events outside Fluxys' control such as natural disasters, terrorist attacks, new computer viruses, attempted hacking and other IT security issues.

Fluxys has taken all necessary measures to ensure that its main computer systems and the systems used to manage its infrastructure remain up and running. As such, several systems have back-up facilities which automatically kick in to ensure continued operation when a serious problem occurs. Fluxys has also made provision for liability-exemption clauses in its transmission contracts, except in the event of fraud or gross negligence. Such technical and contractual measures help to limit the impact of a serious shortcoming in the various components of the technical and IT systems. It is however impossible to rule out all eventualities resulting in disruption of gas transmission services and affecting Fluxys' results.

**Crisis management.** Competent teams have been set up to manage and control crisis situations prompted by incidents and accidents involving a facility operated by Fluxys or Fluxys LNG. Members of these teams receive special crisis-management training and Fluxys regularly organises crisis-management drills to ensure that the group is always ready to respond to an incident.

## Regulatory risks

**Monitoring expenditure.** For those activities which fall under the Gas Act of 12 April 1965 (regulated activities), Fluxys is remunerated on the basis of return on invested capital. In relation to these activities, Fluxys falls under the authority of ex-ante decisions (approval of budgets and tariffs) and ex-post decisions (approval of gains/losses and their purpose) of the Belgian federal regulator (CREG). If the regulator rejects the group's expenditure, this can have an impact on Fluxys' financial situation and results.

**Application of regulated tariffs.** In May and June 2008, after rejecting the various tariff proposals Fluxys had submitted for the tariff period 2008-2011, CREG imposed provisional border-to-border transmission tariffs (the first regulated tariffs to be implemented) and lowered the provisional domestic transmission tariffs which it had originally set at 2007 levels.

Fluxys submitted petitions to the Brussels Court of Appeal to suspend and annul the above CREG decisions. In its judgement of 10 November 2008 the Brussels Court of Appeal suspended the provisional border-to-border transmission tariffs and in a further judgement of 29 June 2009 also suspended the provisional domestic transmission tariffs.

In its judgment of 29 June 2009, the Brussels Court of Appeal submitted a reference to the European Court of Justice for a preliminary ruling on the legality, in the light of European law, of a national system making provision for separate tariffs for border-to-border transmission. On 28 September 2010, the Advocate General published her conclusions. She held that the objective criteria cited by Fluxys and the Belgian State to justify the application of separate tariffs, via the Gas Act, for domestic transmission and border-to-border transmission were appropriate under European law, but that said criteria were to be applied to all relevant infrastructure components in order for the distinction to be justified. On 9 December 2010, the European Court of Justice found that there was no longer any need to issue a ruling on the preliminary question brought before it in order for the national court to give its decision since the disputed distinction between the two tariffs had, in the interim, been eliminated by Belgian legislation (the dual effect of the Act of 29 April 2010 and the judgment handed down by the Constitutional Court on 8 July 2010, see p. 29).

On 18 December 2009, pursuant to an option under Belgian legislation to discontinue the regime of provisional tariffs, Fluxys and CREG agreed on transmission tariffs using a single (cost-based) tariff methodology for domestic and border-to-border transmission. The agreement reached also covers determining storage tariffs. The new tariffs have been in force since 1 January 2010 and will continue to apply until the end of the current regulatory period (31 December 2011).

However, the agreement between Fluxys and CREG does not apply to appeals lodged by Fluxys and pending before the Brussels Court of Appeal (substantive actions for annulment) and those lodged before the Belgian Council of State against CREG's decisions of May and June 2008 in relation to historic border-to-border transmission contracts. The provisions put in place by Fluxys to cover the risk arising from this aspect of the disputes and the guarantees obtained at the time of acquiring border-to-border transmission activities from Distrigas & C° in July 2008 remain applicable pending a definitive substantive ruling on this particular aspect.

On the basis of this agreement, Fluxys submitted a tariff proposal which was approved by CREG on 22 December 2009. On 21 January 2010, four system users lodged actions for annulment before the Brussels Court of Appeal. Two of these users have since stayed appeal proceedings and the appeals by the other two are pending.

Improving efficiency and productivity. The tariff agreement between Fluxys and CREG of 18 December 2009 includes a coefficient by which efficiency and productivity must be improved during the 2008–2011 regulatory period. The system operator is held responsible for any failure to achieve the improvement target set. In 2010, Fluxys achieved the targets set as regards improving efficiency and productivity. Additional steps are to be taken during the 2012-2015 regulatory period although the precise nature of these additional steps has yet to be determined through consultation between Fluxys and CREG.

Ex post differences in relation to reference quantities. The tariffs approved by CREG are based on pre-determined reference quantities of capacity that Fluxys is forecasted to sell to system users. If Fluxys sells more capacity than the reference quantities, the tariffs will be lowered – as in the past – during the next regulatory period. Conversely, if Fluxys sells less capacity than the pre-determined reference quantities, this difference will, barring unforeseen events, be reflected in the company's fair profit margin and cannot cause tariffs to rise during the next regulatory period.

## Legal risks

In the normal course of its activities, Fluxys is involved in a number of lawsuits with third parties. Provisions are set aside in case they are required for these disputes and Fluxys also has insurance cover for any civil liability obligations vis-à-vis third parties.

Ghislenghien. Regarding the Ghislenghien accident on 30 July 2004, Fluxys was prosecuted as a legal entity before the Tournai Correctional Court for, among other things, involuntary manslaughter and involuntary injury due to lack of caution or prudence. In its ruling of 22 February 2010, the court of first instance acquitted Fluxys and ruled that the company had not committed any offence. In March 2010, the public prosecutor's office decided to lodge an appeal against the ruling of the court of first instance and to contest several of the acquittals, including Fluxys's.

On 10 January 2011, appeal proceedings resumed before the Mons Court of appeal. On 12 January, Gérard de Hemptinne, director, gave evidence on behalf of Fluxys and on 14 and 15 February Fluxys argued the case, denying all the allegations made against it. The President of the appeal court is to issue a ruling before the 2011 summer recess.

Fluxys and/or its insurers have been subpoenaed by various victims of the accident before courts in Brussels and Tournai. Fluxys and its insurers have also subpoenaed the other accused parties before said courts. Nine civil cases are currently pending.

## Insurance

The Fluxys group assesses the likelihood of the main risks connected with its activities and estimates the potential financial impact they could have if they materialised. Depending on the possibilities and the market conditions, the group mainly covers these risks via the insurance market. In some cases, risks are partially reinsured by Flux Re, a wholly owned subsidiary of Fluxys SA, or are partially self-retained, for example by applying appropriate deductions.

The fact that Flux Re is fully consolidated in the group's accounts means that the costs engendered by any incidents occurring and covered by the group's insurance policy are booked to the consolidated result.

The comprehensive cover is at the very least in line with European best practices in the field and includes the different areas in which risks may materialise:

- protection of facilities against various types of 'material damage' and in specific cases also additional cover for 'operating losses';
- protection against liability towards third parties by means of comprehensive, multi-level cover;
- staff programme: mandatory insurance cover (statutory insurance against work-related accidents) and staff healthcare programme.

## 1.3. Specific information

### 1.3.1. Structure of Fluxys capital at 31 December 2010

| Shareholder | | Class | Number of shares | % |
|---|---|---|---|---|
| Fluxys G | Registered | B | 585,237 | 89.97 |
| | Dematerialised | D | 10,334 | |
| | Registered | D | 36,600 | |
| Public | Registered | D | 195 | 10.03 |
| | Dematerialised | D | 64,075 | |
| | Bearer | D | 6,194 | |
| Belgian State | Registered | Golden share | 1 | - |
| | | | 702,636 | |

- Classification of shares:
  - Class B: registered shares
  - Class D: registered, dematerialised or, unless otherwise stipulated by law, bearer shares
  - The Belgian State holds golden share no. 1, which does not fall into any of the above classes
- Class-D shares are quoted on the Second Market of NYSE Euronext Brussels.
- Fluxys G, a wholly owned subsidiary of Publigas CVBA, is a public limited company incorporated under Belgian law. Its registered office is located in Belgium at Avenue des Arts 31, B-1040 Brussels. Publigas is a joint-venture between Belgium's municipalities and is responsible for managing their stakes in natural gas companies in Belgium.
- The Belgian State is represented by the Finance Minister.

## 1.3.2. Changes in the structure of Fluxys' capital in 2010

### Sale of Electrabel's stake in Fluxys to Publigas

**Purpose of the transaction.** On 23 March 2010, Publigas and Electrabel concluded an agreement in principle concerning, among other things, the purchase by Publigas of Electrabel's entire stake in Fluxys and on 5 May 2010, the transaction was completed. The agreement between Publigas and Electrabel also detailed provisions on other issues, namely:

- the acquisition by Publigas of the entire guarantee issued in 2008 by the GDF SUEZ group and by Publigas, each in their own right, to cover the regulatory uncertainties associated with the value of the border-to-border transmission activities of the company formerly known as Distrigas & C° (the "Distrigas & C° guarantee"). The GDF SUEZ group also agreed to waive all rights to bring legal action against the tariff decisions issued by CREG;
- the acquisition by Fluxys of the GDF SUEZ group's 6.8% stake in Fluxys LNG SA;
- the acquisition by Fluxys NL BV of the GDF SUEZ group's 5% stake in Interconnector (UK) Ltd.

**Abolition of share class A.** Electrabel held a 38.5% stake in Fluxys, represented by 233,930 class-A shares and 36,600 class-D shares. Publigas held a 51.47% stake represented by 351,307 class-B shares and 10,334 class-D shares.

A total of 270,530 Electrabel shares were sold to Publigas at a price of €2,350 per share, generating a total of €635,745,500.

Pursuant to Article 7 of the Articles of Association, as a result of being transferred to Publigas, the holder of class-B shares, a total of 233,930 class-A shares were automatically converted into class-B shares. Class-D shares may be transferred freely.

Upon completion of the sale, Publigas held an 89.97% stake in Fluxys, represented by 585,237 class-B shares and 46,934 class-D shares. The GDF SUEZ group has therefore withdrawn completely from Fluxys' capital and as such there are no longer any class-A shares. Pursuant to Article 560 of the Belgian Company Code, on 21 April 2010 the Board of Directors approved a special report justifying the abolition of share class A and the latter was thus subsequently abolished via an amendment to the Articles of Association at the Extraordinary General Meeting held on 26 May 2010.

**Conclusion of the advice of the committee of independent directors.** On 14 April 2010, the Board of Directors decided to set up a committee of independent directors within the meaning of Article 524 of the Belgian Company Code to draft an advice on three transactions of the agreement in principle signed between Publigas and Electrabel on 23 March 2010:

- the acquisition of the entire Distrigas & C° guarantee by Publigas;
- the acquisition by Fluxys of Electrabel's 6.8% stake in Fluxys LNG;
- the acquisition by Fluxys NL of Electrabel's 5% stake in Interconnector (UK) Ltd.

The Board of Directors decided to appoint Ms. Monique Lievens and Messrs. Philippe Wilmès and Walter Nonneman, all independent directors of Fluxys, as members of the committee. At its meeting held on 21 April 2010, the committee returned a positive advice to the Board.

The committee reached the following conclusion:

> "Having examined the relevant documentation, taking into account the advice of the financial and legal experts and the management respectively, and having assessed the equity-related impact of the three transactions on the group itself and on its shareholders, the committee does not believe that said transactions are likely to cause any damage to the group which, in the light of the latter's policy, might be construed as manifestly unlawful.
>
> Therefore, the committee hereby returns a positive advice to the Board of Directors concerning the three aforementioned transactions.

The committee's advice is based on the information available to it as at the date of the meeting of the Board of Directors on 21 April 2010.

Done at Brussels, 21 April 2010

Walter Nonneman, Chairman
Monique Lievens, Member
Philippe Wilmès, Member"

**Extract from the minutes of the Board of Directors' meeting.** The meeting of the Board of Directors held on 21 April 2010 addressed the approval of the three transactions based on the clarification provided by the committee of independent directors:

"Based on the clarification provided by the committee of independent directors, the Board of Directors voted in favour of the acquisition of the DGS & C° guarantee by Publigas.

Based on the clarification provided by the committee of independent directors, the Board of Directors voted in favour of the acquisition by Fluxys of Electrabel's 6.8% stake in Fluxys LNG.

Based on the clarification provided by the committee of independent directors, the Board of Directors voted in favour of the acquisition by Fluxys NL BV (subsidiary of Fluxys) of Electrabel's 5% stake in IUK."

**Auditor's assessment.** Pursuant to Article 524 of the Belgian Company Code, the statutory auditor was asked to give an assessment of the reliability of the data contained in the advice returned by the committee of independent directors and in the minutes of the Board of Directors' meeting held on 21 April 2010. The auditor's report concluded the following:

"Within the framework of our remit, we performed the following activities:

a) We obtained the minutes of the Board of Directors' meeting held on 21 April 2010 and compared the conclusion detailed in said minutes with that contained in the advice returned by the committee of independent directors.

b) We ascertained whether the financial data contained in the advice returned by the committee of independent directors and in the minutes of the Board of Directors' meeting was accurate.

Having performed the above activities, we have been able to conclude the following:

- With regard to point a), we can confirm that the conclusion detailed in the minutes of the Board of Directors' meeting held on 21 April 2010 tallies with that detailed in the advice returned by the committee of independent directors.
- With regard to point b), we can confirm that the financial data contained in the advice returned by the committee of independent directors and in the minutes of the Board of Directors' meeting is accurate. However, this assessment does not imply any analysis on our part as to whether the transaction value was a fair one or whether the decision taken by the Board of Directors was a prudent one.

Our report may only be used within the framework of the transactions described above and may not be used for any other purpose. This report concerns the aforementioned information only and does not apply to any other information, regardless of its nature.

Antwerp, 22 April 2010

Auditor
DELOITTE Company Auditors
SC s.f.d. SCRL
Represented by Jurgen Kesselaers"

## Rearrangement of the Fluxys group structure

**Purpose of the transaction.** On 30 June 2010 Fluxys and Publigas decided to adapt their structure and the entire restructuring was completed on 30 September 2010. The restructuring was required pursuant to the new Gas Act as amended by the Act of 10 September 2009, which prohibits natural gas transmission system operators from holding membership rights, either directly or indirectly and in any form, in a supply company or company affiliated to a supply company. The new structure also paves the way for the Fluxys group's international development, a prerequisite for enhancing Belgium's role as a crossroads on the North-Western European natural gas market.

Fluxys previously held three direct or indirect stakes in companies affiliated to gas supply companies:

- a 20% indirect stake in BBL VOF, a company established under Dutch law;
- a 10% indirect stake in Interconnector (UK) Limited, a company established under British law;
- a 5% direct stake in C4Gas SAS, a company established under French law.

The decision was taken to transfer these stakes to a new company, Fluxys Holding SA (later renamed Fluxys G, see p. 81), which is wholly owned by Publigas and to which the provisions of the Act of 10 September 2009 do not apply. Fluxys Holding also incorporated the stakes held by Fluxys SA in companies pursuing non-regulated activities in Belgium and in companies active abroad:

- Sale by Fluxys SA to Fluxys Holding of Fluxys' stake in Fluxys NL BV, incorporating the stakes in BBL VOF and Interconnector (UK) Ltd, the two companies operating a pipeline between continental Europe and the United Kingdom. On 4 August 2010, Fluxys NL BV was renamed Fluxys Europe BV;
- Sale by Fluxys SA to Fluxys Holding of Fluxys' stake in Fluxys Europe SA, responsible for managing Fluxys Holding's cash funds. On 6 August 2010, Fluxys Europe was renamed Fluxys Finance SA;

- Sale by Fluxys SA to Fluxys NL BV of Fluxys' stake in Huberator SA (operator of the Zeebrugge Hub spot market), Gas Management Services Ltd. (provider of operational support services and software for natural gas companies active on transmission grids in North-Western Europe), APX-Endex Holding BV (group of international natural gas and electricity exchanges in the Netherlands, the United Kingdom and Belgium) and C4gas SAS (company set up with Gaz de France and National Grid to purchase gas equipment).

In the framework of the operation, Fluxys SA sold the shareholdings involved for approximately €323 million, which lead the company to book a capital gain of €161 million for the financial year 2010.

However, Fluxys SA will no longer collect the result of the transferred subsidiaries, which will lead to a drop in profit of approximately €9 million (based on the 2009 net profit). Nevertheless, the proposed total transfer price includes future revenue, at present value, from the non-regulated transferred companies. On 16 December 2010, the surplus was distributed to Fluxys Holding and class-D shareholders in the form of an interim dividend payment.

**Conclusion of the advice of the committee of independent directors.** On 26 May 2010, the Board of Directors decided to set up a committee of independent directors within the meaning of Article 524 of the Belgian Company Code to draft an advice on the transfer of stakes in connection with the restructuring of the Fluxys group. The Board of Directors decided to appoint Ms. Monique Lievens and Messrs. Walter Nonneman and André Farber, all independent directors of Fluxys, as members of the committee. At its meeting held on 30 June 2010, the committee returned a positive advice to the Board.

The committee reached the following conclusion:

> "Having examined the relevant documentation, taking into account the advice of the financial and legal experts, and having assessed the equity-related impact of the three transactions on the group itself and on its shareholders, the committee does not believe that said transactions are likely to cause any damage to the group which, in the light of the latter's policy, might be construed as manifestly unlawful.

> Therefore, the committee hereby returns a positive advice to the Board of Directors concerning the aforementioned transactions.
>
> The committee's advice is based on the information available to it as at the date of the meeting of the Board of Directors on 23 June 2010.
>
> Done at Brussels, 23 June 2010
>
> Walter Nonneman, Chairman
> Monique Lievens, Member
> André Farber, Member"

**Extract from the minutes of the Board of Directors' meeting.** The meeting of the Board of Directors held on 30 June 2010 voted in favour of the restructuring operations based on the clarification provided by the committee of independent directors:

> "Based on the clarification provided by the committee of independent directors, the Board of Directors voted in favour of the restructuring operations."

**Auditor's assessment.** Pursuant to Article 524 of the Belgian Company Code, the statutory auditor was asked to give an assessment of the reliability of the data contained in the advice returned by the committee of independent directors and in the minutes of the Board of Directors' meeting held on 30 June 2010. The auditor's report concluded the following:

> "Within the framework of our remit, we performed the following activities:
>
> a) We obtained the minutes of the Board of Directors' meeting held on 30 June 2010 and compared the conclusion detailed in said minutes with that contained in the advice returned by the committee of independent directors.
>
> b) We ascertained whether the financial data contained in the advice returned by the committee of independent directors and in the minutes of the Board of Directors' meeting was accurate. In particular, we assessed the adjusted and generally accepted nature of the methods used to value the stakes involved.

Having performed the above activities, we have been able to conclude the following:

- With regard to point a), we can confirm that the conclusion detailed in the minutes of the Board of Directors' meeting held on 30 June 2010 tallies with that detailed in the advice returned by the committee of independent directors.
- With regard to point b), we can confirm that the financial data contained in the advice returned by the committee of independent directors and in the minutes of the Board of Directors' meeting is accurate. However, this assessment does not imply any analysis on our part as to whether the transaction value was a fair one or whether the decision taken by the Board of Directors was a prudent one.

Our report may only be used within the framework of the transactions described above and may not be used for any other purpose. This report concerns the aforementioned information only and does not apply to any other information, regardless of its nature.

Antwerp, 15 December 2010

Auditor
DELOITTE Company Auditors
SC s.f.d. SCRL
Represented by Jurgen Kesselaers"

## Fluxys G becomes a majority shareholder

On 10 September 2010, Publigas incorporated its Fluxys shares into its subsidiary, Fluxys Holding. As a result of the transfer, in addition to its Fluxys shares, Publigas also brought with it a bank debt of €300 million. At the time, this debt was shouldered jointly by Publigas and ING to enable Publigas to acquire a proportion of Fluxys shares from the GDF SUEZ group in May 2010. The combined transfer thus comprised:

- 632,171 Fluxys shares;
- a bank debt of €300 million.

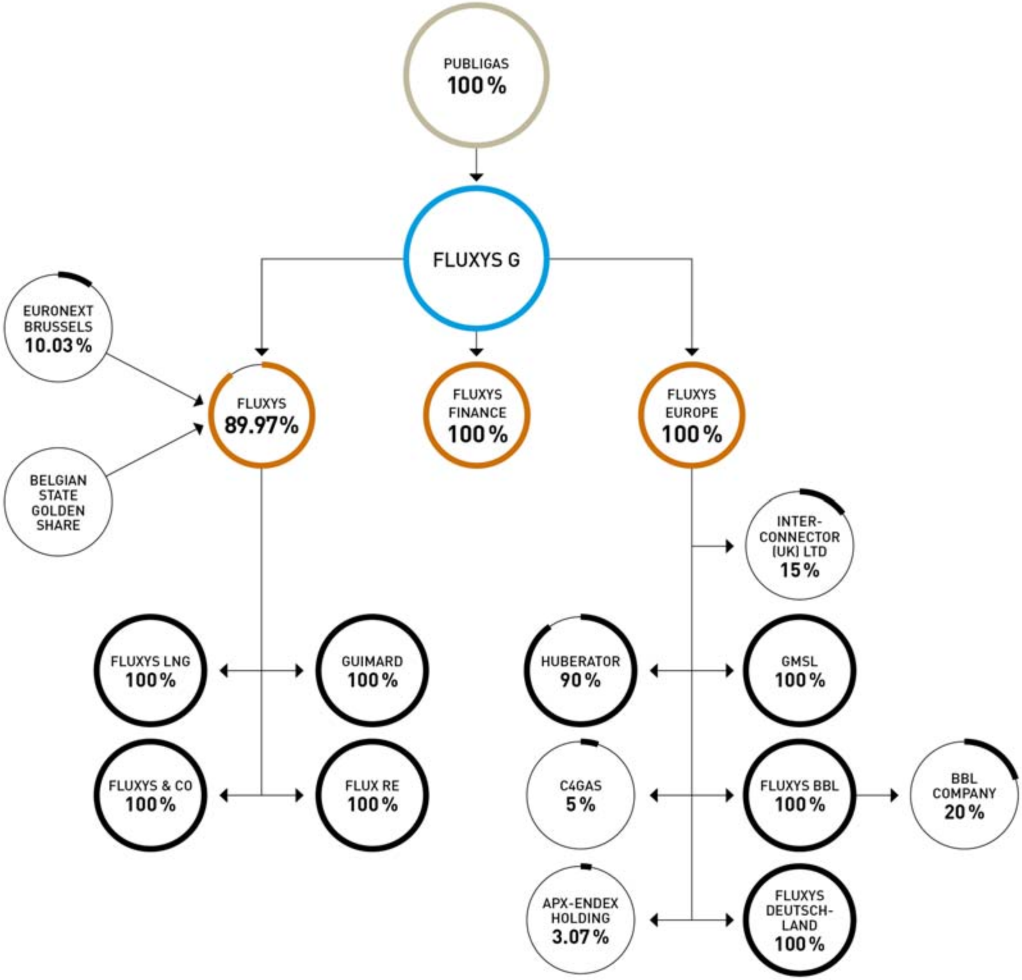
The net value of the combined transfer was €1,218,474,742 (value of 632,171 Fluxys shares minus the €300 million bank debt). As a counterpart to the combined transfer, Publigas acquired 60,923,737 new shares from Fluxys Holding.

Following the capital increase, Fluxys Holding's equity totalled €1,218,694,742, represented by 60,934,737 shares, without denomination of nominal value, each equivalent to an equal proportion of the company's capital. A total of 60,933,737 shares are held by Publigas, while the remaining 1,000 are held by Fluxys Finance SA.

Following completion of the transfer in kind, Fluxys Holding holds:

- a direct majority shareholding in Fluxys (89.97%);
- a direct stake of 100% in Fluxys Europe BV;
- a direct stake of 100% in Fluxys Finance.

At the Annual General Meeting held on 21 December 2010, Fluxys Holding was renamed Fluxys G.


PUBLIGAS
100 %
FLUXYS G
EURONEXT BRUSSELS
10.03 %
BELGIAN STATE GOLDEN SHARE
FLUXYS
89.97 %
FLUXYS FINANCE
100 %
FLUXYS EUROPE
100 %
INTER-CONNECTOR (UK) LTD
15 %
FLUXYS LNG
100 %
GUIMARD
100 %
FLUXYS & CO
100 %
FLUX RE
100 %
HUBERATOR
90 %
GMSL
100 %
C4GAS
5 %
FLUXYS BBL
100 %
BBL COMPANY
20 %
APX-ENDEX HOLDING
3.07 %
FLUXYS DEUTSCH-LAND
100 %

### 1.3.3. Changes after year end

On Friday, 28 January 2011, Publigas and the Caisse de dépôt et placement du Québec signed and agreement in principle allowings the Caisse to acquire a 10% stake in Fluxys G through a capital increase of up to €150 million. The transaction will be completed during the first half of 2011 and the capital increase will support the group's investment and development programme in Belgium and abroad.

In terms of corporate governance, the agreement signed between Publigas and the Caisse de dépôt et placement du Québec stipulates that the latter will be represented proportionally in the administrative bodies of Fluxys G and Fluxys SA.

### 1.3.4. Guarantee in the context of the takeover of Distrigas & C°

**Individual guarantee by Publigas and SUEZ-Tractebel.** Fluxys purchased Distrigas & C° from Distrigas on 1 July 2008. Distrigas & C° was responsible for marketing natural gas border-to-border capacity on the Troll (Zeebrugge–Blaregnies) and RTR1 (Zeebrugge–Zelzate/Eynatten) pipelines. The acquisition was one of a number of commitments made to the European Commission in connection with the merger between GDF and SUEZ. At the time of this acquisition, SUEZ-Tractebel and Publigas granted Fluxys an individual guarantee of up to €250 million covering the uncertainty associated with the value of the border-to-border transmission activities acquired from Distrigas & C°, taking into account ongoing disputes concerning CREG's tariff decisions of May and June 2008 and via which CREG was challenging the principle of sanctity of contracts (with the exception of three out of 36 contracts).

On 24 December 2009, SUEZ-Tractebel transferred its shares in Fluxys to Electrabel.

**Publigas acquires the guarantee in its entirety.** Following changes to the legal framework via the Act of 10 September 2009, in March 2010 Electrabel and Publigas concluded an agreement on the sale of Electrabel's entire stake in Fluxys (38.5%). The transaction was completed on 5 May 2010. The agreement stipulated that Publigas took over the guarantee in its entirety.

**Caisse de dépôt et placement du Québec to take over 10% of the guarantee.** On 28 January 2011, Publigas and the Caisse de dépôt et placement du Québec signed an agreement in principle allowing the latter to acquire a stake in Fluxys G, the parent company of Fluxys SA.

The agreement also stipulates that the Caisse de dépôt et placement du Québec is to acquire 10% of the guarantee paid to Fluxys by its main shareholders at the time. The partial acquisition of the guarantee is governed by a separate agreement to be examined by a committee of independent Fluxys directors. At its meeting held on 26 January 2011, the Fluxys Board of Directors appointed Ms. Monique Lievens and Messrs. André Farber and Walter Nonneman as members of this committee. The Fluxys Board of Directors has decided to approve of the transfer on the basis of a positive advice by the committee of independent directors.

## 1.4. Corporate Governance Declaration

Fluxys has adopted the Belgian Corporate Governance Code 2009 ('Code 2009') as its benchmark code of conduct. Fluxys is also subject to legislation on corporate governance contained in the Act of 12 April 1965 on the transmission of gas and other products via pipelines, as subsequently amended ('Gas Act') and the European Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC ('Directive'). Details of the legislation applied by Fluxys can be found online:

- Code 2009: www.corporategovernancecommittee.be
- Gas Act: www.just.fgov.be
- Directive: eur-lex.europa.eu

### 1.4.1. Developments in 2010

**Changes in the composition of the Board of Directors.** Following the withdrawal of the GDF SUEZ group from Fluxys' capital (see p. 73-76) the directors appointed following nomination by the GDF SUEZ group stepped down at the Extraordinary General Meeting held on 26 May 2010. The Board of Directors would like to thank Jacqueline Boucher, Jean-Claude Depail, Sophie Dutordoir, Jean-Pierre Hansen and Jacques Laurent for their contribution to Fluxys' development and for their advice to the Board of Directors and the various committees. The composition of the Board of Directors and the advisory committees was subsequently adjusted on 26 May 2010.

**Changes in the Articles of Association and the Corporate Governance Charter.** Fluxys' Articles of Association were amended at the Extraordinary General Meeting held on 26 May 2010. The majority of the changes were made to reflect the fact that that the GDF SUEZ group was no longer a Fluxys shareholder (see p. 73-76). The Corporate Governance Charter was also amended to take account of the changes to the Articles of Association.

The following changes were made to the Articles of Association and the Corporate Governance Charter to reflect the fact that the GDF SUEZ group is no longer a Fluxys shareholder:

- all references to the GDF SUEZ group and to class A shares have been removed;
- the percentage stake held by Publigas (89.97% as at 26 May 2010) has been amended;
- all references to the shareholder agreement of 27 May 2009 between the GDF SUEZ group and Publigas have been removed since said agreement is no longer applicable;
- a reference to one stable shareholder (Publigas CVBA) has been added;
- provisions implementing the shareholder agreement of 27 May 2009 have been removed and the composition of the Board of Directors and the advisory committees has been simplified pursuant to the provisions of the Gas Act;
- articles have been renumbered as a result of the removal of Article 16;
- Article 30 (as per the new numbering) concerning appropriation of profits has been amended to reflect the fact that there is only one main shareholder.

The following elements have also been included in the Articles of Association:

- At its meeting held on 21 April 2010, the Board of Directors proposed adding a provision to the Articles of Association enabling the Board to take decisions without the prior consent of the Annual General Meeting concerning the purchase or exchange by the group of its own shares – within the boundaries laid down in the Belgian Company Code. This authorization must be added to the Articles of Association.
- A reference has also been added to the new EU legislation applicable to Fluxys and which entered into force on 3 March 2011.

## 1.4.2. Internal monitoring and risk management systems

Fluxys applies the COSO model (based on ISO 31000) as its reference framework for internal monitoring and risk management. The model comprises the policies, processes, tasks, values and other aspects of the company's business seeking to offer a reasonable degree of certainty as regards to identifying and managing risks, achieving designated operational and financial targets, and ensuring compliance with the applicable legislation. These measures are detailed in a policy, procedures and instructions in every field of activity; and periodic assessments of how the measures are being implemented are conducted.

In addition, internal and external audits are conducted as part of cyclical annual plan to verify that the risks assumed by the company have been correctly identified, managed and communicated. These audits are also designed to ascertain whether the measures mentioned above have actually been implemented. The internal and external audits also assess how effective the company's internal monitoring and risk management measures are and the resulting recommendations are actioned by company.

## 1.4.3. Notifications of major stakeholdings in Fluxys

**Publigas, Electrabel and GDF SUEZ – 6 May 2010.** Publigas, Electrabel and GDF SUEZ officially notified the Belgian Banking, Finance and Insurance Commission on 6 May 2010 and within the framework of transparency legislation (Section II of the Act of 2 May 2007 and the Royal Decree of 14 February 2008) that Electrabel had transferred 38.5% of its shares with voting rights in Fluxys (270,530 shares of which 233,930 are class A and 36,600 are class D) to Publigas. The notification is available on the Fluxys website: www.fluxys.com.

**Publigas – 30 August 2010.** Publigas officially notified the Belgian Banking, Finance and Insurance Commission on 30 August 2010 and in accordance with Article 74(8) of the Act of 1 April 2007 that it holds 89.97% of the shares with voting rights in Fluxys (632,171 shares of which 585,237 are class B and 46,934 are class D). The Publigas notification is available on the Fluxys website: www.fluxys.com.

**Publigas and Fluxys Holding – 17 September 2010.** Publigas and Fluxys Holding officially notified the Belgian Banking, Finance and Insurance Commission on 6 May 2010 and within the framework of transparency legislation (Section II of the Act of 2 May 2007 and the Royal Decree of 14 February 2008) that Publigas had transferred 89.97% of its shares with voting rights in Fluxys (632,171 shares of which 585,237 are class B and 46,934 are class D) to Fluxys Holding. The notification is available on the Fluxys website: www.fluxys.com.

## 1.4.4. Voting rights and special powers

The Annual General Meeting represents all shareholders, i.e. the holders of registered, dematerialised and bearer shares, irrespective of their share class. The Annual General Meeting has all the powers necessary to pass or approve deeds that are in the interest of the company. The valid decisions it makes shall be binding on all shareholders, even those who are not present or who do not agree with said decisions.

Each share entitles the holder to one vote. In compliance with the Royal Decree of 16 June 1994 (amended by the Acts of 29 April 1999 and 26 June 2002 and by the Royal Decrees of 16 June 1994 and 5 December 2002), and with the Articles of Association within which these provisions are incorporated, special rights shall be attributed to the golden share held by the Belgian State in Fluxys in addition to the ordinary rights attached to all other shares. Said special rights are exercised by the federal Energy Minister and, in brief, comprise the following:

- the right to oppose any transfer, assignment as a guarantee, or change in the purpose of which Fluxys' strategic assets – a list of which is attached to the aforementioned Decree dated 16 June 1994 – if the minister considers that such an operation would adversely affect national interests in the field of energy;
- the right to appoint two representatives of the federal government in an advisory capacity to Fluxys' Board of Directors and Strategy Committee;

- the right of representatives of the federal government to appeal to the minister within four working days, on the basis of objective, non-discriminatory and transparent criteria (as defined in the Royal Decree of 5 December 2000) against any decision of Fluxys' Board of Directors or Strategy Committee (including the investment and activity plan and the associated budget) which in their view breaches national energy policy guidelines, including the government's national energy supply objectives. Such an appeal shall be suspensive. If the minister has not annulled the decision concerned within eight working days after this appeal, the decision shall become definitive;
- a special voting right in the event of deadlock at the Annual General Meeting concerning an issue affecting the objectives of federal energy policy.

The special rights attached to the golden share held by the Belgian State are listed under Articles 11, 15, 17 and 21 of Fluxys' Articles of Association. These rights remain attached to the golden share for as long as it is held by the Belgian State and Articles 3 to 5 of the Royal Decree of 16 June 1994 granting the State a golden Fluxys share or substituting provisions remain in force.

## 1.4.5. Limitations on share transfers set by law or the Articles of Association

The following share transfers are free:

- transfers of shares, subscription rights, ex-rights or independent rights enabling the purchase of shares (hereafter generally referred to as "securities") between a shareholder and companies associated with the shareholder as per the meaning detailed in the Belgian Company Code;
- transfers between shareholders of the same class;
- all transfers of class-D shares.

In all other cases, any shareholder planning to transfer securities to another shareholder or a third party, in any manner whatsoever, shall give all other shareholders, with the exception of those of class-D shares and the golden share, the option of a priority purchase (on a prorata basis of their shareholding) of the securities relating to the planned transfer, as per the procedures detailed below.

A shareholder planning to transfer shares must inform the company in writing, and requesting acknowledgement of receipt, a) of the number of shares he plans to sell, b) of the name of the prospective assignee(s) deemed to be of good faith and the price irrevocably offered by said assignee, and c) that the shares in question are being offered to shareholders for priority purchase under the same conditions. The Board of Directors shall inform the other shareholders of this offer in the same manner within two weeks. Every shareholder shall then have 60 days as from receipt of the aforesaid written notification to inform the transferring shareholder and the company, in writing and requesting acknowledgement of receipt, whether or not he shall submit a bid and, if so, of the number of shares he wishes to acquire.

If requests exceed the number of shares offered for sale, the Board of Directors shall distribute the shares between the applicants on a prorata basis of the number of shares held by said applicants and up to the maximum number of shares stated in their request.

In the event that, upon the expiry of the aforementioned period of 60 days, no shareholders have indicated their intention to acquire the shares offered, or where the number of shares requested by the shareholders is less than the number of shares offered, the shareholder which indicated its intention to transfer shares in accordance with the provisions of this article shall be able to complete the planned transfer to the third party indicated in its notification and under the conditions indicated therein.

### 1.4.6. Rules governing the appointment and replacement of members of the Board of Directors and amendments to the Articles of Association

**Appointment and replacement of directors.** Article 11 of the Articles of Association stipulates that the company shall be managed by a Board of Directors comprising no fewer than three and no more than 24 non-executive directors appointed for a maximum term of six years by the Annual General Meeting and who may be dismissed by the latter.

Article 12 of the Articles of Association stipulates that the directorships of resigning directors who have not been reelected shall terminate immediately after the Annual General Meeting. In the event that one or more directorships remain vacant, the remaining directors may act temporarily in the place of the resigning directors. In such cases, the Annual General Meeting shall make a permanent nomination or nominations at its first meeting thereafter. Where a directorship becomes vacant prior to routine expiry of a term of office, the replacement director appointed shall serve out the remaining period of the term of the director s/he is replacing.

**Amendments to the Articles of Association.** The group's Articles of Association may be amended by the Annual General Meeting; any amendments made must be published in the Belgian Official Gazette. Deliberation upon amendments to the Articles of Association is only valid if at least half of the group's share capital is represented at the Annual Meeting.

### 1.4.7. Issue or buy-back of shares

Fluxys' Articles of Association authorise its Annual General Meeting to decide whether to acquire its own shares according to the conditions set out in the Belgian Company Code. No decision has been taken by the Annual General Meeting in this regard. However, when the company acquires its own shares with a view to distributing them to its staff, no decision by the Annual General Meeting is required.

In accordance with the Belgian Company Code, the Extraordinary General Meeting held on 26 May 2010 authorised the Board of Directors to acquire, via purchase or exchange, either from the stock exchange or elsewhere and by any means and in any form, the maximum number of shares permitted under the provisions of said Code at a price not lower than

80% and not higher than 120% of the average closing price during the five working days immediately prior to the purchase or exchange. This authority is granted for a period of five years from 26 May 2010 and may be extended as stipulated in the Belgian Company Code. The authority also applies to the purchase of shares in the group by a direct subsidiary within the meaning of Article 627 of the Code. The Board of Directors may invalidate shares acquired in this way on the group's behalf; any such invalidation must be certified by a notarised deed and the Articles of Association must then be amended to reflect the decisions taken.

Pursuant to Article622 §2 of the Belgian Company Code, the group may, without the prior consent of the Annual General Meeting and at any time, transfer its own shares, either on the stock exchange or elsewhere, at a price determined by the Board of Directors. This option also applies to the transfer, either on the stock exchange or elsewhere, of the group's shares by one of its direct subsidiaries at a price determined by the Board of Directors of said subsidiary.

In the case of a capital increase, the shares for subscription in cash must be preferentially offered to shareholders, in proportion to the portion of the company's capital their shares represent. However, the Annual General Meeting may, in the interests of the company, limit or eliminate the right of preference in compliance with legal provisions.

## 1.4.8. Board of Directors

### Composition of the Board of Directors

Article 11 of the company's Articles of Association stipulates that the Board of Directors shall comprise no fewer than three and no more than 24 non-executive directors, excluding one or more government representatives.

In order to comply with the provisions of the Gas Act[2], at least:

- one third of directors must be independent: these independent directors are chosen in part for their financial acumen and in part for their technical expertise in a particular field but primarily for their knowledge of the energy sector;
- one third of directors must be of the opposite sex to the other members.

Half the directors must be fluent in French and the other half in Dutch.

In addition, the golden share grants the Minister the right to appoint two representatives of the federal government to the Board of Directors.

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[2] Independent directors must meet the requirements laid down in Article 524(4), which makes reference to Article 526(b) of the Belgian Company Code. Said Code contains a transitional provision: In listed companies, directors appointed prior to said provision entering into force and who meet the criteria detailed in Article 524(4)(2) of the Belgian Company Code but who do not meet the criteria detailed in Article 526(b) of said Code may continue to serve as independent directors within the meaning of Articles 524(2)(a) and 526(a)(2) of the Belgian Company Code until July 2011.

## Directors

Daniël Termont *Chairman of the Board of Directors and Vice-Chairman of the Strategy Committee*

Daniel Termont is the Mayor of Ghent and Chairman of Publigas. He was appointed director in May 1998 following nomination by Publigas and his current term of office expires at the Annual General Meeting to be held in May 2015.

Jean-Pierre Hansen *(Vice-Chairman of the Board of Directors and Chairman of the Strategy Committee until 26 May 2010)*

Jean-Pierre Hansen, a civil engineering graduate, is the CEO of Electrabel and a member of the GDF SUEZ Executive Committee. He is also a director of SUEZ Energy Services, KBC and CNP. In addition, he is a professor at the *Université Catholique de Louvain* (Catholic University of Leuven) and the *École Polytechnique* (Polytechnical school) in Paris. Jean-Pierre Hansen was appointed director in May 1992 following nomination by SUEZ-Tractebel. Following the withdrawal of the GDF SUEZ group from Fluxys' capital, he stepped down at the Extraordinary General Meeting held on 26 May 2010.

Jacqueline Boucher *(Director until 26 May 2010)*

Jacqueline Boucher has a PhD in science and a degree in economics and is Head of Economic Studies and Modelling at GDF SUEZ. She was appointed director in May 2006 following nomination by SUEZ-Tractebel. Following the withdrawal of the GDF SUEZ group from Fluxys' capital, she stepped down at the Extraordinary General Meeting held on 26 May 2010.

Jean-Jacques Cayeman *Director (since 11 May 2010)*

Jean-Jacques Cayeman has a degree in business and is financial director for the intermunicipal economic development company IGRETEC, which also manages the stakes held in energy companies by towns and communities in Hainaut province. He is also an advisor to the Chairman of ORES and is an expert advisor within the cabinet of Paul Magnette, Minister for Climate and Energy Policy. He holds directorships in several organisations in the energy sector and is Vice-Chairman of Publigas. He was appointed director by the Board of Directors on 11 May 2010 following nomination by Publigas and his current term of office expires at the Annual General Meeting to be held in May 2016.

Yves Colliou *(Director until 9 March 2010)*
Yves Colliou graduated in engineering from the *École Catholique des Arts et Métiers* (Catholic school of arts and crafts). He was appointed director in March 2009 following nomination by SUEZ-Tractebel and stepped down as director with effect from 10 March 2010.

Paul De fauw *Director, Chairman of the Audit Committee*
Paul De fauw holds a diploma in applied economics and commerce and is Director General of the official representative association (distribution system operator) Infrax West. He is also CEO of INFRAX cvba. He was appointed director in December 2003 following nomination by Publigas and his current term of office expires at the Annual General Meeting to be held in May 2014.

Jean-Claude Depail *(Director from 10 March 2010 until 26 May 2010)*
Jean-Claude Depail graduated in engineering from ENSEM and holds a Masters degree in physical sciences as well as a Bachelors degree in economics. He is a member of the GDF SUEZ Executive Committee and heads up the Infrastructure Business Line. He was appointed director in March 2010 following nomination by Electrabel. Following the withdrawal of the GDF SUEZ group from Fluxys' capital, he stepped down at the Extraordinary General Meeting held on 26 May 2010.

Mireille Deziron *Director*
Mireille Deziron is CEO of *Jobpunt Vlaanderen* (Flanders' jobsite) and Vice-Chairwoman of the Board of Directors of the *Openbaar Psychiatrisch Zorgcentrum* (Public psychiatric care centre) in Geel. She is also a member of Flanders' *Efficiënte en Effectieve overheid* (Efficient and effective government) commission. She was appointed director by the Board of Directors on 3 June 2009 following nomination by Publigas. Her current term of office expires at the Annual General Meeting to be held in May 2015.

Julien Donfut *(Director until 11 May 2010)*
Julien Donfut holds a degree in law and political sciences and is senior expert with ORES. He was appointed director in November 2007 following nomination by Publigas and his term of office expired at the Annual General Meeting in May 2010.

Sophie Dutordoir *(Director until 26 May 2010)*
Sophie Dutordoir holds a degree in Romance philology from the University of Ghent and has also studied economics, finance and taxation (EHSAL) and general management (Fontainebleau). She was a director in March 2009 following nomination by SUEZ-Tractebel. Following the withdrawal of the GDF SUEZ group from Fluxys' capital, she stepped down at the Extraordinary General Meeting held on 26 May 2010.

Claude Grégoire *Director, Vice-Chairman of the Board of Directors and Chairman of the Strategy Committee*
Claude Grégoire is a civil engineer and CEO of Socofe. He was appointed director in October 1994 following nomination by Publigas and his current term of office expires at the Annual General Meeting to be held in May 2012.

Luc Hujoel *Director*
Luc Hujoel holds a Masters degree in economics and is director general of the intermunicipal company Sibelga and Brussels Network Operations. He was appointed director in May 2009 following nomination by Publigas and his current term of office expires at the Annual General Meeting to be held in May 2015.

Luc Janssens *Director*
Luc Janssens holds a degree in law and is a lawyer with *Elegis – Huybrechts, Engels, Craen en vennoten* in Antwerp. He is also the first alderman of Kapellen. He was appointed director in May 2008 following nomination by Publigas and his current term of office expires at the Annual General Meeting to be held in May 2015.

Jacques Laurent *(Director and Chairman of the Audit Committee until 26 May 2010)*
Jacques Laurent is a civil engineer and director of several companies in the gas and nuclear sectors. He was appointed director in May 1992 following nomination by SUEZ-Tractebel. Following the withdrawal of the GDF SUEZ group from Fluxys' capital, he stepped down at the Extraordinary General Meeting held on 26 May 2010.

Patrick Moenaert *Director*
Patrick Moenaert holds a degree in political and social sciences (sociology), is the Mayor of Bruges, Chairman of *Vlaamse Centrumsteden* (Flemish regional cities), Director of Publigas and Chairman of the intermunicipal company Finiwo. He was appointed director in May 1998 following nomination by Publigas and his current term of office expires at the Annual General Meeting to be held in May 2015.

Josly Piette *Director*
Josly Piette holds degrees in industrial sociology and economic and social policy. He is Mayor of Bassenge, Honorary General Secretary of the *Confédération des Syndicats Chrétiens* (Confederation of Christian trade unions) and a director of Socofe and Publigas. He was appointed director by the Board of Directors on 3 June 2009 following nomination by Publigas. His current term of office expires at the Annual General Meeting to be held in May 2014.

Christian Viaene *Director, Chairman of the Appointment and Remuneration Committee*
Christian Viaene is a commercial engineer and holds a degree in applied economics. He is Director General of the Brussels intermunicipal gas and electricity companies and is General Secretary of Publigas. He was appointed director in March 2005 following nomination by Publigas and his current term of office expires at the Annual General Meeting to be held in May 2015.

Luc Zabeau *Director*
Luc Zabeau is a commercial engineer and holds a degree in commercial and financial sciences. He joined Sibelga in 2003 where he is currently director of the Finance Department. He was appointed director by the Board of Directors on 3 June 2009 following nomination by Publigas and his current term of office expires at the Annual General Meeting to be held in May 2011.

Independent directors under the provisions of the Gas Act

Marianne Basecq *Director*
Marianne Basecq holds a degree in business administration with additional training in public management. She is a General Advisor for the holding Socofe SA. She was appointed independent director in May 2007 following nomination by Publigas and her current term of office expires at the Annual General Meeting to be held in May 2013.

Sophie Brouhon *Director*
Sophie Brouhon is a graduate in economics and management and is currently a member of the parliament of the Brussels-Capital Region. She was appointed independent director in May 2007 following nomination by Publigas and her current term of office expires at the Annual General Meeting to be held in May 2013.

Caroline De Padt *Director*
Caroline De Padt studied economics, modern languages and business administration and is active in the *Algemene Beheerscomité voor het Sociaal Statuut der Zelfstandigen* (General management committee for the social statute of the self-employed). She was appointed independent director in May 2007 following nomination by Publigas and her current term of office expires at the Annual General Meeting to be held in May 2013.

André Farber *Director, Chairman of the Corporate Governance Committee*
André Farber holds a PhD in applied economics and is a professor emeritus at the *Université Libre de Bruxelles* (Brussels Free University). He was appointed director in December 2003 and an independent director by the Extraordinary General Meeting of 14 January 2004. His appointment as independent director was confirmed by the Board of Directors until the end of his term of office following nomination by the Appointment and Remuneration Committee in May 2009. His current term of office expires at the Annual General Meeting to be held in May 2014.

Monique Lievens *Director*
Monique Lievens holds a degree in economics and specialised in business economics. She is Human Resources Advisor at the National Bank of Belgium. She was appointed independent director in May 2007 following nomination by Publigas and her current term of office expires at the Annual General Meeting to be held in May 2013.

Walter Nonneman *Director*

Walter Nonneman is a professor of economics at the University of Antwerp and a director of several financial institutions and associations. He holds a PhD in applied economics from UFSIA and also studied at the Harvard Graduate School of Business Administration. Walter Nonneman was appointed independent director in May 2009 following nomination by the Appointment and Remuneration Committee and his current term of office expires at the Annual General Meeting to be held in May 2015.

Henriette Van Caenegem *Director*

Henriette Van Caenegem holds a degree in law. After making a career as a corporate lawyer at UCB SA and Cytec Surface Specialties SA, she was the Managing Director of the *Stichting tegen Kanker* (Foundation against cancer) for two years. She went on to provide legal and contractual support for UGent TechTransfer, the technology transfer unit of the University of Ghent. She is currently group General Counsel for the Tessenderlo group, a chemicals multinational headquartered in Belgium. She was appointed independent director in May 2006 and her appointment as an independent director was confirmed by the Board of Directors until the end of her term of office following nomination by the Appointment and Remuneration Committee in May 2009. Her current term of office expires at the Annual General Meeting to be held in May 2012.

Philippe Wilmès *Director (until 25 May 2010)*

On 26 May 2010, the Board of Directors learned of the death of Mr Philippe Wilmès. Philippe was a director of Fluxys for seven years and the Board would like to pay tribute to him for the enlightened advice and opinions he gave to the company's various bodies and via which he played a major role in developing the group's activities.

## Federal government representative

### François Fontaine

François Fontaine holds degrees in law and tax law and is currently a general advisor with *Société Fédérale de Participations et d'Investissement* (National investment association). He was appointed federal government representative by the Minister on 4 February 2009 with the specific responsibilities detailed in the Acts of 26 June 2002 and 29 April 1999 and in the Royal Decrees of 16 June 1994 and 5 December 2000.

## Presence of the Chairman of the Executive Board

As Chairman of the Executive Board, Walter Peeraer is routinely invited to attend meetings of the Board of Directors.

## Secretariat

Nicolas Daubies acts as secretary to the Board of Directors.

## Activity report

### Issues examined

The members of the Board seek to adopt decisions by consensus. In 2010, the Board addressed the following main issues:

- Fluxys' strategy, including international developments;
- the 2010 budget;
- the ten-year investment programme;
- HSEQ policy;
- preparation of the company's annual and half-yearly accounts and those of its subsidiaries, as well as associated press releases;
- drafting the annual financial report for the financial year 2009 and the half-yearly financial report as at 30 June 2010;
- drafting interim statements to be released on 11 May and 17 November 2010;
- agreements between the major shareholders on various issues, including:
  - o the acquisition by Publigas of Electrabel's stake in Fluxys;
  - o the acquisition by Fluxys of Electrabel's stake in Fluxys LNG;
  - o the acquisition by Fluxys NL BV (subsidiary of Fluxys) of Electrabel's stake in IUK;
- the rearrangement of the Fluxys group structure and examination of the latter by the committee of independent directors;
- projects and research into projects related to the continuing development the group's activities in Belgium and North-Western Europe including, among others:
  - o the RTR2 project to boost east/west transmission capacity;
  - o the north/south natural gas transmission project, including the construction of a new compressor station for high-calorific natural gas in Winksele;
  - o potential involvement in the LNG terminal at Dunkirk;
  - o a potential collaboration between Wingas, E.On and Gasunie to build and operate the NEL;
  - o the second extension of the Zeebrugge LNG terminal;
- changes in the legal and regulatory framework including, among others:
  - o follow-up of the tariff agreement with CREG;
  - o keeping abreast of developments in disputes and action brought in order to safeguard the company's interests;

- o the European Energy Programme for Recovery (EEPR) and the Third Energy Package;
- the ramifications of the case surrounding the Ghislenghien accident;
- the consequences of the gas leak in Wilsele;
- convening the Annual General Meeting and the Extraordinary General Meeting;
- tabling amendments to the Articles of Association;
- amendments to the composition of the Board of Directors and the various committees;
- amendments to the Corporate Governance Charter;
- examination of reports by the Strategy Committee, the Audit Committee, the Appointment and Remuneration Committee and the Corporate Governance Committee;
- evaluation of the Board of Directors, individual directors and the advisory committees;
- approval of work and supply orders worth over €20 million.

### Frequency of meetings and attendance levels

The Board of Directors held five ordinary meetings and four extraordinary meetings in 2010. On one occasion in 2010 (25 October), the Board was required to take a unanimous decision, votes to be cast in writing, pursuant to Article 521 of the Company Code and Article 15 of Fluxys' Articles of Association.

Director attendance at Board meetings was as follows:

| | Attendance |
|---|---|
| Daniël Termont | 9 out of 9 meetings |
| Jean-Pierre Hansen | 1 out of 5 meetings |
| Claude Grégoire | 4 out of 9 meetings |
| Marianne Basecq | 8 out of 9 meetings |
| Jacqueline Boucher | 3 out of 5 meetings |
| Sophie Brouhon | 7 out of 9 meetings |
| Jean-Jacques Cayeman | 4 out of 4 meetings |
| Yves Colliou | 0 out of 1 meeting |
| Jean-Claude Depail | 0 out of 3 meetings |
| Paul De fauw | 9 out of 9 meetings |
| Caroline De Padt | 8 out of 9 meetings |
| Mireille Deziron | 6 out of 9 meetings |
| Julien Donfut | 4 out of 5 meetings |
| Sophie Dutordoir | 2 out of 5 meetings |
| André Farber | 8 out of 9 meetings |
| Luc Hujoel | 8 out of 9 meetings |
| Luc Janssens | 8 out of 9 meetings |
| Jacques Laurent | 5 out of 5 meetings |
| Monique Lievens | 8 out of 9 meetings |
| Patrick Moenaert | 9 out of 9 meetings |
| Walter Nonneman | 8 out of 9 meetings |
| Josly Piette | 6 out of 9 meetings |
| Henriette Van Caenegem | 5 out of 9 meetings |
| Christian Viaene | 7 out of 9 meetings |
| Philippe Wilmès | 5 out of 6 meetings |
| Luc Zabeau | 9 out of 9 meetings |

## 1.4.9. Committees formed by the Board of Directors

### Strategy Committee

#### Composition of the Strategy Committee

The Strategy Committee comprises seven non-executive directors, one third of whom must be classed as independent under the provisions of the Gas Act.

**Chairman**
Jean-Pierre Hansen (until 26 May 2010)
Claude Grégoire (since 27 May 2010)

**Vice-Chairman**
Claude Grégoire (until 26 May 2010)
Daniël Termont, Chairman of the Board of Directors (since 27 May 2010)

**Members**
Sophie Brouhon*
Caroline De Padt* (since 27 May 2010)
Sophie Dutordoir (until 26 May 2010)
Luc Hujoel
Jacques Laurent (until 26 May 2010)
Patrick Moenaert
Walter Nonneman*
Philippe Wilmès* (until 25 May 2010)

** Independent directors under the provisions of the Gas Act.*

**Federal government representative acting in an advisory capacity**
François Fontaine

Invited in an advisory capacity
Walter Peeraer, Chairman of the Executive Board and CEO
Daniël Termont, Chairman of the Board of Directors (until 26 May 2010)
Christian Viaene (since 27 May 2010)

Secretariat
Nicolas Daubies acts as secretary to the Strategy Committee.

## Issues examined

The Strategy Committee was set up within the Board of Directors in accordance with Article 18.3 of the Articles of Association. It has no decision-making powers but is responsible for preparing draft decisions to be submitted to the Board of Directors for approval in accordance with the applicable legal, regulatory and statutory provisions. Within this framework, the Strategy Committee also monitors implementation of the Board's decisions. The members of the Strategy Committee seek to adopt decisions by consensus. In 2010, the Strategy Committee addressed the following issues:

- Fluxys' strategy, including international developments;
- the 2010 budget;
- the ten-year investment programme;
- HSEQ policy;
- projects and research into projects related to the continuing development the group's activities in Belgium and North-Western Europe including, among others:
  - the RTR2 project to boost east/west transmission capacity;
  - the north/south natural gas transmission project, including the construction of a new compressor station for high-calorific natural gas in Winksele;
  - potential involvement in the LNG terminal at Dunkirk;
  - a potential collaboration between Wingas, E.On and Gasunie to build and operate the NEL;
  - the second extension of the Zeebrugge LNG terminal;
- changes in the legal and regulatory framework including, among others:
  - follow-up of the tariff agreement with CREG;
  - keeping abreast of developments in disputes and action brought in order to safeguard the company's interests;

- o the European Energy Programme for Recovery (EEPR) and the Third Energy Package;
- the ramifications of the case surrounding the Ghislenghien accident;
- the consequences of the gas leak in Wilsele;
- commercial activities and grid operation;
- the company's financial position;
- the risks of and opportunities afforded by changes in grid access rules.

## Frequency of meetings and attendance levels

The Strategy Committee met six times in 2010.

Director attendance at Strategy Committee meetings in 2010 was as follows:

| | Attendance |
|---|---|
| Claude Grégoire | 5 out of 6 meetings |
| Jean-Pierre Hansen | 1 out of 1 meeting |
| Daniël Termont | 5 out of 6 meetings |
| Sophie Brouhon | 4 out of 6 meetings |
| Caroline De Padt | 4 out of 5 meetings |
| Sophie Dutordoir | 1 out of 1 meeting |
| Luc Hujoel | 5 out of 6 meetings |
| Jacques Laurent | 1 out of 1 meeting |
| Patrick Moenaert | 6 out of 6 meetings |
| Walter Nonneman | 5 out of 6 meetings |
| Christian Viaene | 3 out of 5 meetings |
| Philippe Wilmès | 1 out of 1 meeting |

## Audit Committee

### Composition of the Audit Committee

The Audit Committee comprises six directors, at least two thirds of whom must be independent. At least one independent director must have the required expertise in accounting and auditing.

**Chairman**
Jacques Laurent (until 26 May 2010)
Paul De fauw (since 27 May 2010)

**Members**
Marianne Basecq*
Sophie Brouhon*
Jean-Jacques Cayeman (since 27 May 2010)
Paul De fauw (until 26 May 2010)
André Farber*
Henriette Van Caenegem*

** Independent directors under the provisions of the Gas Act.*

**Accounting and auditing expertise of the members of the Audit Committee**[3]

Paul De fauw:

- graduate in applied economics and commerce from the *Katholieke Universiteit Leuven* (Catholic University of Leuven)
- CFO of a distribution system operator for over 15 years and prior to that CFO of that same distribution system operator for ten years. He is CEO of the official representative association Infrax cvba, Deputy Director of *Vlaamse Energieholding* (Flemish energy holding) and has been a member of the audit committees and risk committees of various companies in the energy, telecommunications and cabling sectors for several years

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[3] Pursuant to the Act of 17 December 2008, at least one member of the Audit Committee must assume responsibility for the independence and expertise of accounting and auditing operations.

Jacques Laurent:

- graduate in civil engineering;
- from 1988 to 1999 head of the Tractebel group's Strategy and Control Department, where he was in charge of monitoring and reporting to the Board of Directors on the Tractebel group's consolidated accounts; also a member of various audit committees

Marianne Basecq:

- graduate in business administration (commerce and management) from the *Université de Liège* (Liège university), majoring in finance; she subsequently undertook additional training in the consolidation of corporate accounts
- member of various audit committees

Sophie Brouhon:

- graduate in economics and public administration
- head of the office of the Vice-President and Minister for Budget, Finance, Civil Service and Sport of the French Community of Belgium (i.e. the office exercising administrative and budgetary control for that Community)
- French Community Government Commissioner in charge of the control and audit of the public-utility institutions falling under the authority of the French Community.

Jean-Jacques Cayeman:

- graduate in business
- since 1985, in charge of financial and accounts management for an intermunicipal company (economic development, consultancy and management); since 1993, also active in the energy sector, responsible specifically for managing towns' stakes in energy companies.
- within these roles, involved in monitoring and auditing various companies

André Farber:

- holder of a PhD in applied economics and emeritus professor at the Brussels Free University (ULB)
- university lecturer in finance for over 30 years; also a director and member of a bank audit committee and formerly Accounting Director for the *Université Libre de Bruxelles* (Brussels Free University)

Henriette Van Caenegem:

- holds a Master of Laws (LL.M. Cantab, Cambridge)
- as a corporate lawyer, risk management was one of her key roles, while as General Counsel, first for UCB and currently for the Tessenderlo group and through handling several takeovers, she is well versed in the financial aspects of company management; risk management is currently one of her main tasks.

### Secretariat

Nicolas Daubies acts as secretary to the Audit Committee.

## Issues examined

The Audit Committee was set up within the Board of Directors to assist the latter. The members of the Audit Committee adopt decisions by consensus. In 2010, the Committee addressed the following main issues:

- the company's accounts as at 31 December 2009 and 30 June 2010 as well as associated press releases (financial part);
- the annual financial report for 2009 and the half-yearly report as at 30 June 2010;
- the principles governing the closing of accounts;
- interim statements released on 11 May and 17 November 2010;
- examination of the work of the auditor and renewal of the latter's term;
- the rearrangement of the Fluxys group structure and the organisation of Fluxys G;
- examining the internal monitoring and risk management system;
- goals, planning and internal auditing activities in 2010;
- following up on the recommendations made in the wake of the internal audit in 2009;
- assessing the efficacy of the internal audit;

- analysing the risks to which the company is exposed;
- research into the risk management charter;
- stripping of assets.

### Frequency of meetings and attendance levels

The Audit Committee met six times in 2010. Director attendance at Audit Committee meetings in 2010 was as follows:

| | Attendance |
|---|---|
| Paul De fauw | 6 out of 6 meetings |
| Jacques Laurent | 2 out of 2 meetings |
| Marianne Basecq | 4 out of 6 meetings |
| Sophie Brouhon | 4 out of 6 meetings |
| Jean-Jacques Cayeman | 4 out of 4 meetings |
| André Farber | 6 out of 6 meetings |
| Henriette Van Caenegem | 5 out of 6 meetings |

## Appointment and Remuneration Committee

### Composition of the Appointment and Remuneration Committee

The Appointment and Remuneration Committee comprises seven directors, at least one third of whom must be independent.

**Chairman**
Christian Viaene

**Members**
Marianne Basecq*
Sophie Brouhon*
Caroline De Padt* (since 27 May 2010)
Mireille Deziron (since 27 May 2010)
Jean-Pierre Hansen (until 26 May 2010)
Luc Hujoel (since 27 May 2010)
Walter Nonneman*
Philippe Wilmès* (until 25 May 2010)

**Secretariat**
Anne Vander Schueren acts as secretary to the Appointment and Remuneration Committee.

** Independent directors under the provisions of the Gas Act.*

### Issues examined

The Appointment and Remuneration Committee was set up within the Board of Directors to assist it in all matters concerning the appointment and remuneration of Directors and members of management. The members of the Appointment and Remuneration Committee adopt decisions by consensus. In 2010, the Appointment and Remuneration Committee addressed the following main issues:

- compilation of the draft remuneration report;
- the opinion on the appointment of new directors;

- the opinion on the reappointment of directors whose terms of office had expired;
- the status of the objectives for the Chairman and members of the Executive Board and drafting of new objectives;
- the recommendation on remuneration for the Chairman and members of the Executive Board;
- compiling evaluation forms for the Board of Directors, committees and directors;
- the context surrounding the establishment of an Appointment and Remuneration Committee within Fluxys G

### Frequency of meetings and attendance levels

The Appointment and Remuneration Committee met four times in 2010. Director attendance at Appointment and Remuneration Committee meetings was as follows:

| | Attendance |
|---|---|
| Christian Viaene | 4 out of 4 meetings |
| Marianne Basecq | 2 out of 4 meetings |
| Sophie Brouhon | 2 out of 4 meetings |
| Caroline De Padt | 0 out of 2 meetings |
| Mireille Deziron | 2 out of 2 meetings |
| Jean-Pierre Hansen | 0 out of 2 meetings |
| Luc Hujoel | 2 out of 2 meetings |
| Walter Nonneman | 3 out of 4 meetings |
| Philippe Wilmès | 2 out of 2 meetings |

## Corporate Governance Committee

### Composition of the Corporate Governance Committee

The Corporate Governance Committee comprises six non-executive directors, two thirds of whom must be independent under the provisions of the Gas Act.

**Chairman**
André Farber*

**Members**
Sophie Brouhon*
Caroline De Padt* (until 26 May 2010)
Luc Janssens
Jacques Laurent (until 26 May 2010)
Monique Lievens* (since 27 May 2010)
Henriette Van Caenegem*
Luc Zabeau (since 27 May 2010)

**Secretariat**
Nicolas Daubies acts as secretary to the Corporate Governance Committee.

** Independent directors under the provisions of the Gas Act.*

### Issues examined

The Corporate Governance Committee was set up within the Board of Directors in order to carry out the tasks conferred upon it by the Gas Act. The members of the Corporate Governance Committee adopt decisions by consensus. In 2010, the Corporate Governance Committee addressed the following main issues:

- preparation of the 2009 annual report by the Corporate Governance Committee drafted on the basis of Article8/3 §5,3 of the Gas Act;
- exchange of letters with CREG concerning independent directors and their relevant knowledge of the energy sector.

### Frequency of meetings and attendance levels

The Corporate Governance Committee met twice in 2010. Director attendance at Corporate Governance Committee meetings was as follows:

| | Attendance |
|---|---|
| André Farber | 2 out of 2 meetings |
| Sophie Brouhon | 1 out of 2 meetings |
| Caroline De Padt | 0 out of 1 meeting |
| Luc Janssens | 2 out of 2 meetings |
| Jacques Laurent | 1 out of 1 meeting |
| Monique Lievens | 1 out of 1 meeting |
| Henriette Van Caenegem | 2 out of 2 meetings |
| Luc Zabeau | 1 out of 1 meeting |

### 1.4.10. Assessment

The Corporate Governance Charter stipulates, inter alia, that the Board of Directors, under the leadership of its Chairman, must:

- examine and assess on an annual basis its own efficiency and that of its committees, in particular the role and tasks of those various committees;
- examine how it interacts with the Executive Board;
- examine regularly and assess the contribution made by each director, specifically within the framework of the re-appointment process.

The Board of Directors standardized the above process in 2010. The group brought in an external consultant to compile an assessment report for the Board of Directors. This report was compiled on the basis of the minutes of the management bodies and evaluation forms completed by each director in relation to his/her involvement in the Board of Directors and in committees.

The Corporate Governance Charter states that each advisory committee must review its internal rules of procedure and overall efficiency at least every two years. Committee assessments were conducted during the second half of 2010.

# 1.4.11. Remuneration report

## Internal procedures and principles

### Remuneration policy

**Directors.** The remuneration policy for directors is approved by the Annual General Meeting, pursuant to a proposal by the Board of Directors following recommendations by the Appointment and Remuneration Committee.

**Members of the Executive Committee.** The remuneration policy for members of the Executive Board is approved by the Board of Directors following recommendations by the Appointment and Remuneration Committee. The procedure for drafting a remuneration policy for members of the Executive Board was based inter alia on external benchmarking via the internationally renowned HAY methodology. The HAY study was conducted in 2007 by an external consultant on behalf of the Appointment and Remuneration Committee and the findings were then discussed by the latter.

### Remuneration level

**Directors.** During the financial year 2010, Fluxys determined the directors' remuneration level in line with the principles outlined in the Corporate Governance Charter.

The Annual General Meeting has set the overall annual amount of emoluments for directors and the government representative at a maximum of €360,000 per year (subject to indexing) as from 1 January 2007. The Board of Directors distributes the amount of overall remuneration determined between all directors on the basis of the workload their individual roles require within the company. Directors also receive an attendance fee of €250 for each Board and Committee meeting.

As part of the aforementioned overall amount, the following sums are also awarded:

- an index-linked share of €8,000 (as at 1 January 2006) for members of the Board of Directors and the government representative, and an additional share for the Chairman of said Board;
- an additional half share for members of special committees (including for the government representative within the Strategy Committee and directors invited to sit on committees in an advisory capacity) and the Chairman of the Strategy Committee.

Where directors serve for only part of a given year, their remuneration for that year is determined on a pro rata temporis basis.

Directors do not receive performance-related remuneration such as bonuses, long-term profit-sharing schemes or pension-plan benefits.

**Members of the Executive Board.** During the financial year 2010, Fluxys used the HAY study to determine the remuneration level of the members of the Executive Board, comprising a basic annual salary, a variable remuneration element and a pension plan.

The HAY study is used to ensure that the fixed remuneration received by members of the Executive Board is in line with standard market practices. Said fixed remuneration is also index-linked each year where applicable.

The level of variable remuneration received is based on the extent to which company and individual objectives have been achieved. Each year, the company objectives are detailed in a Management Balanced Score Card compiled on the basis of a long-term strategic plan. The Management Score Card details departmental objectives, which are used to produce individual Score Cards for each member of the Executive Board. The individual Score Cards set out collective objectives, personal objectives (some cross-company, some individual), and offer an opportunity to evaluate management style and values. The individual Score Cards are used to determine the extent to which each member of the Executive Committee has achieved his or her individual objectives.

In 2010, the CEO was evaluated by the Board of Directors, following an advice by the Appointment and Remuneration Committee, based on the extent to which the stipulated objectives were achieved. An interim evaluation was also conducted.

The other members of the Executive Board were evaluated by the CEO and the conclusions were submitted to the Appointment and Remuneration Committee.

Members of the Executive Board are not granted any company shares or share options.

## Directors' emoluments and remuneration for members of the Executive Board

### Directors' emoluments

For their work on the Board of Directors and on the various committees, the directors received the following emoluments and attendance fees:

| Name | Total (€) |
|---|---|
| Daniël Termont | 25,161.15 |
| Marianne Basecq [2] | 20,828.92 |
| Jacqueline Boucher [1] | 4,244.51 |
| Sophie Brouhon | 30,493.38 |
| Jean-Jacques Cayeman | 10,113.96 |
| Yves Colliou [1] | 1,627.58 |
| Paul De fauw | 16,746.69 |
| Caroline De Padt | 18,581.67 |
| Jean-Claude Depail | 1,866.93 |
| Mireille Deziron | 13,249.44 |
| Julien Donfut | 4,135.48 |
| Sophie Dutordoir [1] | 5,991.76 |
| André Farber | 22,328.92 |
| Claude Grégoire [2] | 17,831.66 |
| Jean-Pierre Hansen | 9,236.27 |
| Luc Hujoel [4] | 19,331.67 |
| Luc Janssens | 15,496.69 |
| Jacques Laurent | 10,986.26 |
| Monique Lievens | 15,249.44 |
| Patrick Moenaert | 16,746.69 |
| Walter Nonneman | 23,078.92 |
| Josly Piette [2] | 10,164.46 |
| Henriette Van Caenegem | 20,328.92 |
| Christian Viaene [3] | 19,081.67 |
| Philippe Wilmès | 9,691.15 |
| Luc Zabeau [4] | 13,749.44 |
| **Total** | **376,343.63** |

*On their demand is stated that some Directors have retroceded their emoluments and attendance fees:*

*(1) These directors retroceded their emoluments and attendance fees to SUEZ-Tractebel.*

*(2) These directors retroceded their emoluments and attendance fees to SOCOFE.*

*(3) These directors retroceded their emoluments and attendance fees to Sibelgas.*

*(4) These directors retroceded their emoluments and attendance fees to Interfin.*

Federal government representative (attending meetings of the Board of Directors and the Strategy Committee in an advisory capacity):
François Fontaine €16,496.69.

## Remuneration of members of the Executive Board

On 26 January 2011, following a proposal by the Appointment and Remuneration Committee, the Board of Directors set the level of remuneration for the Chairman of the Executive Board for 2010 and, following a proposal by the latter, the total remuneration for other members of the Executive Board. The remuneration granted to members of the Executive Board comprises:

- a basic salary;
- variable remuneration depending on the degree to which the objectives set each year have been achieved;
- a pension plan administered in accordance with the rules applicable to companies in the gas and electricity sector[4];
- other components: expenses to cover insurance and benefits in kind, including gas and electricity sector benefits.

**Remuneration received by the company's CEO in 2010**

| | |
|---|---|
| Basic salary | €345,000 |
| Variable remuneration | €141,300 |
| Pension | €185,321 |
| Other components | €23,781 |

**Overall remuneration received by other members of the company's Executive Board in 2010**

| | |
|---|---|
| Basic salary | €964,355 |
| Variable remuneration | €292,549 |
| Pension | €330,891 |
| Other components | €104,319 |

[4] See also Note 27 Provisions for staff benefits, p. 231-235.

## 1.4.12. Company management

The Executive Board is responsible for the operational management of the company.

Walter Peeraer, Chairman of the Executive Board and Chief Executive Officer. He is also in charge of Audit, Communication, Environment, Human Resources, Internal Workplace Health & Safety and Legal & Company Secretary.

Pascal De Buck, member of the Executive Board and Commercial Director, also in charge of Public Affairs.

Gérard de Hemptinne, member of the Executive Board and Director Asset Management.

Paul Tummers, member of the Executive Board and Director Strategy and Regulatory Affairs.

Peter Verhaeghe, member of the Executive Board and Director Infrastructure Projects & Engineering

Michel Vermout, member of the Executive Board and Chief Financial Officer.

Bérénice Crabs acts as secretary to the Executive Board.

In addition to the matters submitted to the Board of Directors (see p. 101-102), the Executive Board focussed on the following issues:

- *Commercial activities*: services offered, market consultations, relations and negotiations with users of natural gas transmission, natural gas storage and LNG services, measures to increase market liquidity, purchases of natural gas for balancing, contacts with industrial customers connected to the Fluxys grid, distribution system operators and transmission system operators in neighbouring countries;
- *Business development*: potential synergies and opportunities to cooperate with other grid operators in Europe, organisation of international market consultations;
- *Finance*: annual and half-yearly financial results and interim statements, audit policy, drawing up and monitoring the budget, efficient cost management;

- *Regulation and legal framework*: follow-up of the application to be an appointed system; operator, monitoring of regulation at Belgian and EU levels, code of conduct and monitoring of the petitions submitted at the Court of Appeal regarding CREG decisions;
- *Infrastructure and operations*: grid safety (QSMS), monitoring peaks during winter time, investment projects and orders of up to €20 million, including follow-up on obtaining the required permits, storage policy, HSEQ, policy and results in relation to accidents at work, debriefing and lessons to be learned from incidents or near-incidents on the grid, monitoring of the Ghislenghien issue, compilation of an action plan in response to the gas leak at Wilsele;
- organisation and human resources;
- powers;
- monitoring activities of subsidiaries;
- preparation of dossiers for the Board of Directors.

In accordance with its internal rules of procedure, the Executive Board is convened by the Chairman and, in principle, meets each week.

## 1.4.13. Transactions and other contractual relations

The group's Corporate Governance Charter lays down a procedure for transactions and other contractual relations between directors or members of the Executive Board and the company or its subsidiaries and which do not fall within the scope of Article 523 of the Company Code.

This procedure is as follows:

Directors and members of the Executive Board must take care to comply with all legal and ethical obligations incumbent upon them. They must organise their private and business affairs in such a way as to avoid as far as possible any situation in which a personal conflict of interests may arise between themselves and the company or its subsidiaries.

In the event of any doubt on the part of a director or member of the Executive Board as to whether such a conflict of interests is present, he or she must notify the Chairman of the Corporate Governance Committee accordingly.

Where a personal conflict of interests is present, the director or member of the Executive Board concerned must abstain from any discussion during that part of the meeting of the Board of Directors during which the matter in question is addressed and must also abstain from any voting, including by proxy, on said matter. Reasons for such an abstention must be stated in accordance with the terms of the Company Code.

Where a conflict of interests is deemed to be present, the purpose and conditions of a given transaction or other contractual relationship must be communicated to the Board of Directors by its Chairman. The Board of Directors is also required to approve said purpose and conditions (or refer them to the Board of Directors of the subsidiary concerned for approval) where the total amount of the transaction or accumulated transactions over a three-month period is in excess of €25,000.

The Board of Directors was not required to implement the above procedure during the financial year 2010.

## 1.4.14. Auditor

At the 2010 Annual General Meeting, the mandate of SCCRL Deloitte, Réviseurs d'entreprise, represented by Mr Jurgen Kesselaers, was renewed for a period of three years. The Annual General Meeting also determined the annual emoluments for SCCRL Deloitte, Réviseurs d'entreprise, represented by Mr Jurgen Kesselaers.

In 2010, Deloitte received emoluments totalling €172,495 from Fluxys for their work as the latter's auditor. Deloitte also performed other tasks worth a total of €47,769.

## 1.4.15. Subsidiaries

The Board of Directors supervises the progress of subsidiaries' activities at least twice a year when it examines their consolidated accounts (annual and half-yearly). The Board of Directors is also informed, as and when appropriate, of major events and important developments involving subsidiaries.


SUSTAINABLE
DEVELOPMENT

# 2 SUSTAINABLE DEVELOPMENT

## 2.1. Operating safely

### 2.1.1. Safety: A day-to-day priority

As operator of the natural gas transmission grid in Belgium, safety is Fluxys' number one priority and the bottom line in everything we do. More than half of our 1,000 staff are involved in building secure facilities and operating them safely.

**Safe infrastructure.** The utmost care is taken when determining the route of any new pipeline and Fluxys considers a number of criteria such as existing and planned industrial and residential areas. Route plans are discussed with local and regional authorities at various stages throughout the process. Once the route has been determined, the process of obtaining the necessary permits begins, with safety as a top priority.

Fluxys is also meticulous in its choice of materials. The group's high-pressure pipelines are made of steel and meet all applicable European and international standards. The pipes undergo the most stringent quality-control procedures possible at the factory and these procedures are overseen by a recognised independent inspection body. The pipes also have a synthetic coating system and are fitted with a cathodic protection system to prevent corrosion.

Work on building new infrastructure is also carried out under strict safety rules. Fluxys only uses qualified and SCC-certified contractors and requires that excavator operators hold the relevant professional qualifications. Pipelines are laid a minimum of 1.1 m below ground while the minimum legal depth is 80 cm. Furthermore, a bright orange warning mesh and a warning ribbon (listing the type of product being transmitted through the pipeline, Fluxys' name and an emergency contact number) are installed 30 cm above the pipeline. Fluxys also carries out a number of checks: while laying the pipeline, every weld is inspected and prior to commissioning Fluxys conducts a range of resistance and leak tests – all under the supervision of a recognised independent inspection body. The pipeline is only commissioned once the inspection body has issued a Quality Release Note, a document certifying that the pipeline meets all applicable standards.

**Gas leak in Wilsele.** On 11 November 2010, a gas leak occurred in Wilsele during commissioning of a new pipeline. Thanks to the decisive and professional response of the emergency services and the authorities, the area was quickly made safe. Fluxys also took all possible steps to restore safety as soon as it possibly could.

Fluxys has investigated the incident and the leak did not occur on the new pipeline being commissioned but on a connected branch which was not yet operational. A human mistake might have caused natural gas to enter at a premature stage into the connected branch at high pressure. Fluxys assumes full responsibility for the incident. The company has immediately launched an investigation into how such error can be avoided in future and how communication during pipeline commissioning can be improved. Fluxys will also be taking additional steps when recommissioning the pipeline.

**Active prevention.** Most gas transmission pipeline incidents are the result of damage to the pipes during work in the area. Therefore anyone wishing to carry out work close to Fluxys pipelines has a legal obligation to inform the company in advance. Since 2006, notifying works has been quick and simple thanks to the Federal Cable and Pipeline Information Database (CICC/KLIM) website. A dedicated team and a sophisticated document-management system within Fluxys handles approximately 60,000 notifications each year.

However, Fluxys is not notified of all works being carried out in the vicinity of its infrastructure and the company conducts regular inspections to identify such works. More than 60 Fluxys patrol officers, based in eight regional operating sectors, inspect the pipeline system every day. Fluxys also runs a range of programmes to provide information and raise awareness about how to work safely in the vicinity of its infrastructure and these programmes are aimed at all those involved in such work, e.g. architects, developers, designers, contractors, owners and operators, municipalities, notaries and the emergency services.

**Always on stand-by**. Fluxys dispatchers in the dispatching office control and monitor natural gas flows on the Fluxys grid 24 hours a day. The dispatching office also coordinates the response to reports of the smell of gas, an incident or an accident. If an incident occurs on the grid, Fluxys' technicians and specially trained welders are also on standby around the clock to carry out repairs on site. Over 300 staff are on stand-by at both Fluxys headquarters and its regional operating sectors to take immediate action should technical problems occur or the smell of gas be reported.

### 2.1.2. Integrated Quality & Safety Management System

Fluxys takes steps at several levels to monitor the integrity of its transmission infrastructure, from the design stage, through the construction phase to final operation. Safety is thus being managed through a chain of closely interlinked processes. To ensure a structured and targeted approach, Fluxys has set up an integrated management system known as the Quality & Safety Management System (QSMS), which incorporates the legal requirements and standards by which the company is bound in terms of well-being at work, industrial safety, environmental protection and quality.

The QSMS is based on the principle of continuous improvement: Fluxys' processes and procedures are constantly reviewed to take account of a range of factors such as the latest technological developments.

In 2010, Fluxys and Fluxys LNG staff attended a total of approximately 12,800 hours of safety training, of which approximately 4,500 hours focussed on QSMS processes and procedures.

Each year, the authorities responsible for the safety of Seveso facilities conduct a QSMS follow-up audit. During these audits, the QSMS is reviewed using special technical tools and remedial actions are monitored. Internal assessments are also conducted to enhance the efficiency of the QSMS.

## 2.1.3. Awareness-raising campaigns

Serious pipeline incidents arise mainly from damage caused by third parties. That is why Fluxys has, for many years, been carrying out awareness-raising campaigns on how to work safely in the vicinity of its infrastructure. The campaigns are targeted at everyone involved in such work: developers, designers and anyone working independently or on behalf of a developer. Special emphasis is placed on the legal requirement to find out from Fluxys whether any natural gas transmission infrastructure is present in the vicinity of areas where works are planned.

### Initiatives for municipalities

**Individual information meetings for municipalities.** In 2010, Fluxys continued its ongoing programme of holding an information meeting with the authorities of each of the 395 municipalities with a Fluxys pipeline sited either within the municipality itself or in its immediate vicinity at some stage during their term of office. Fluxys invites not only the mayor and aldermen to these meetings, but also technical and town planning department officers, the fire brigade and the police.

**Pipeline maps sent to municipalities.** Every five years Fluxys sends a direct mailing to each municipality with a full overview of the pipelines in their territory. If new pipelines are commissioned or existing pipelines are moved during that five-year period, the municipalities concerned are automatically sent a copy of the updated maps.

## Collaboration with the fire and police services

**Pipeline diagrams.** As a member of the Federation of Belgian Pipeline Companies (Fetrapi), Fluxys has its pipeline data incorporated into a continuously updated database. In collaboration with the Crisis Centre and Civil Security DGs within the Federal Public Service Home Affairs, the database is being made available online to fire brigades.

Every five years, local fire and police services are also sent a full overview of all Fluxys pipelines present in their area. If new pipelines are commissioned or existing pipelines are moved during that five-year period, the fire and police services concerned are automatically sent a copy of the updated maps.

Pipeline data are also included in databases held by Information and Communications Centres (CIC), the emergency 101 control rooms to which all calls for police assistance are routed. When processing a call, these centres can consult the plans immediately to check whether the situation affects Fluxys or other Fetrapi members. The 100 and 101 centres in some provinces were recently merged into a single centre.

**Emergency and intervention plan.** In the context of the guide to emergency measures in relation to pipelines used to transport gas and liquids, Fluxys is always willing to assist municipalities and provinces when drafting intervention plans.

**Information meetings.** When organising information meetings for municipalities, Fluxys routinely asks representatives from the local fire brigade and police force to attend as well. In addition, Fluxys always follows up requests from fire brigades or police forces to organise individual information meetings.

## Initiatives for the construction sector

**Preparatory meetings with contractors.** Every day Fluxys staff hold preparatory meetings to explain essential safety measures to be taken when carrying out construction work near Fluxys' transmission infrastructure. Fluxys has also participated in information sessions organised by the Flemish Building Confederation (VCB) on use of the CICC/KLIM platform and the Cable and Pipeline Information Portal (KLIP) (see p. 134).

**Information for engineering firms.** In 2010, Fluxys joined forces with ORI, the professional association for consultancy and engineering firms, to outline the safety aspects of working in the vicinity of Fluxys infrastructure during the association's information sessions.

**Information for contractors and excavation-machine operators.** Fluxys has previously put together a special brochure aimed specifically at excavation-machine operators and excavation workers setting out the rules to be observed when carrying out work in the vicinity of pipelines. In 2010, the brochure was updated to include a section aimed specifically at contractors, developers, architects and consulting engineers setting out the notification procedure to be followed by anyone planning construction works in the vicinity of Fluxys infrastructure.

The brochure is available on the Fluxys website and is also distributed by Fluxys patrol officers and via trade unions such as *Bouwunie*, the *Confédération de la Construction*, the *Vlaamse Confederatie Bouw*, VC-CS, BIB.Co and the National Action Committee for Safety and Health in the Construction Industry (CNAC-NAVB).

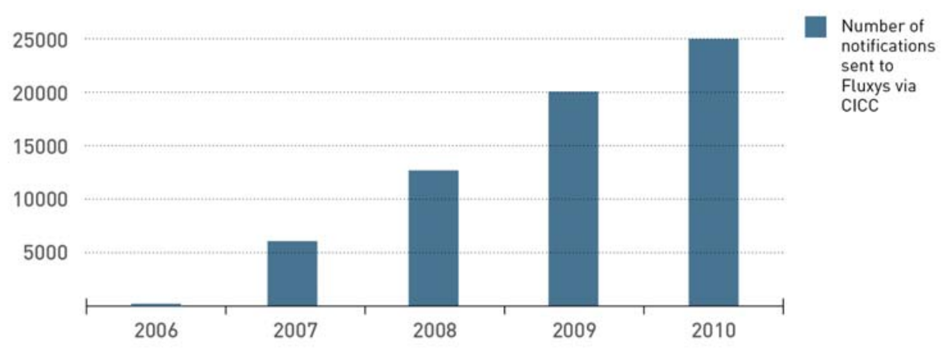
## Initiatives for owners and operators

Fluxys is running an ongoing programme to remind some 70,000 owners and operators of land every five years that an underground gas pipeline passes through or close to their land. Since 2007, Fluxys has been notifying such parties of the presence of pipelines by way of an eye-catching direct mailing.

## 2.1.4. Simplifying notification of works

**CICC/KLIM: Notification of works made quick and simple.** CICC/KLIM, the Federal Cable and Pipeline Information Database, is operated by the non-profit association CICC/KLIM. Apart from Fluxys, the main members of the latter are Elia and the other pipeline companies belonging to Fetrapi. Using the CICC/KLIM website, anyone can notify the owners of high-voltage cables and pipeline infrastructure used to transport gaseous and other products about work to be carried out in Belgium. The portal makes it simpler to meet the legal requirement to provide notification of works.

Notifications sent to Fluxys via CICC




Since it was first launched, use of the CICC/KLIM platform has increased considerably. Of all CICC/KLIM consultations in 2010, almost 25,000 pertained to Fluxys as compared with 20,000 in 2009. In total, Fluxys received approximately 57,000 works notifications throughout the year, which means it received some 43% of all notifications via the CICC/KLIM portal in 2010, compared with 24% in 2008.

The federal CICC/KLIM platform is also linked to the Cable and Pipeline Information Portal (KLIP), a Flemish initiative. Via the link-up between the two initiatives in 2009, any notifications submitted via CICC/KLIM of works being carried out in Flanders are automatically forwarded to KLIP, while notifications in KLIP are automatically forwarded to CICC/KLIM. As such, parties may use either of the two systems to notify all transmission, telecommunications, drain and cable operators and all natural gas, electricity and water distributers in Flanders.

In Wallonia and the Brussels-Capital Region, CICC/KLIM is evolving into the general portal for location plan requests and during the course of 2011 several system operators in these regions are set to join the initiative.

Small-scale works. Small-scale works in the vicinity of Fluxys pipelines must also be notified. These include connecting households to the distribution system and repairs to the distribution infrastructure. Fluxys is in talks with other system operators how to devise a notification procedure for small-scale works which is more-efficiently structured and easier to follow.

## 2.2. Good neighbourly relations

### 2.2.1. Infrastructure projects: transparent communication

From the planning phases for new infrastructure projects, Fluxys strives to inform the municipal authorities, local residents and other stakeholders in a transparent way about the work the company intends to carry out. We place special emphasis on the company's approach to safety and on the fact that our pipelines and installations constitute a public-interest infrastructure.

#### Initiatives for municipalities

**Information sessions about new pipeline projects.** Since 2008, Fluxys has offered the municipalities the possibility of co-organising with them an information meeting for local residents during the permitting procedures for new pipelines.

**Site visits.** Municipalities and other authorities are also regularly invited on site visits and to site meetings whenever a Fluxys works site is in operation in their area. Such visits and meetings are an opportunity for them to monitor progress on the site more closely and therefore be able to provide local residents with accurate information about the works being carried out. In 2010, Fluxys organised site visits for local, regional and federal authorities in connection with the RTR2, Lommel-Ham-Tessenderlo, Péronnes-Leernes-Dampremy and Dilsen-Boslaan pipelines.

### Initiatives for local residents

**Targeted communication about every project.** Since 2007, at the design phase of every new pipeline project Fluxys has been sending out an eye-catching direct mailing containing information for local residents about the project: why the pipeline is needed, how the route was determined, who the Fluxys contact person is and the process involved in laying a pipeline. Communication with local residents is a particular focus in other than pipeline projects as well.

**Open Day at Loenhout.** On Sunday, 3 October an Open Day was held at Fluxys' natural gas storage facilities in Loenhout. The event was an opportunity for local residents and other interested parties to find out what purpose storage facilities serve within the Fluxys grid and enjoy a guided tour of the site.

## 2.2.2. Dedicated Fluxys contacts for owners and operators of land traversed by a pipeline

From the initial planning of a pipeline route right through to site restoration after a pipeline has been laid, owners and operators of land which is traversed by a pipeline have their own contact person at Fluxys. In this way they can consult someone who has a thorough knowledge of their concerns and the features of their land. The Fluxys contacts are part of a team of independent negotiators with a specific mission from the company: to ensure good relations by defending owners' and operators' interests within Fluxys. They are also the contact persons for owners and operators of land after works have been completed and when, for example, pipeline operation works are carried out on private land.

## 2.3. People: our prime concern

### 2.3.1. Staff trends

Fluxys currently has 1,000 staff whose skills and commitment are the driving force behind the Group. Some 30% of these staff have been hired within the past five years and as such the company faces the challenge of integrating these new arrivals into existing teams to ensure a smooth transfer of knowledge and to enhance the expertise of the entire staff. Fluxys' HR policy therefore focuses not only on recruitment but also on retaining our existing human capital, promoting job mobility within the company and further enhancing the skills and knowledge of the company's staff. Fluxys' staff are after all the driving force behind the company and Fluxys is keen to provide them with the best possible working environment.

The company's values are the bedrock upon which Fluxys' HR policy is built and as such the company expects all staff to embrace these values.

### Recruitment and career development

**Recruitment and internships.** In 2010, Fluxys and Fluxys LNG welcomed 35 new members of staff, bringing the total number of staff working for Fluxys and Fluxys LNG to 1,061 as at the end of 2010; compared to 1,069 a year earlier. In other words, Fluxys has achieved its goal of overall growth and is now concentrating on keeping staff numbers stable. This 'stabilisation' policy may be reviewed if the scope of Fluxys' activities changes.

Although fewer staff were recruited in 2010 than in 2009, Fluxys nevertheless created almost 90 vacancies – which is no mean feat in recruitment terms.

Fluxys has close links with many schools and offers students the opportunity to complete an internship or thesis within the company. In 2010, Fluxys hosted 14 interns following various training courses. Fluxys also opened the doors of its LNG terminal in Zeebrugge to technical schools which may, in the future, provide a pool of candidates for positions within the company.

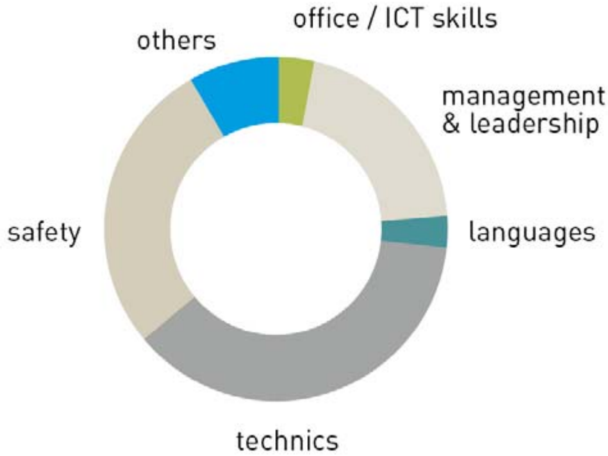
Fluxys has broadened its recruitment actions with a diversification of recruitment channels. Accordingly, in addition to posting vacancies on its own website and on the main jobsites and in the regional and national press, the company also advertises on job fairs and within the student community, primarily via campus recruitment events. Fluxys also organises its own programme of events such as visits to its work sites and operating facilities (e.g. the Zuun Intervention Centre and the Dispatching Centre in Brussels). All these steps are designed to raise the company's profile with the community of people that fit with the job profiles sought after. The visit to the Dispatching Centre in Brussels in particular was a resounding success and led to the company hiring two dispatching officers, a position typically difficult to fill.

A dynamic career path. Fluxys is keen to offer its staff dynamic career prospects and encourages job mobility, be that in the form of an upward promotion or a sideways move. To this end, vacancies are initially advertised internally to give existing staff the opportunity to apply, while in the case of restructuring within the company every effort is made to ensure that each individual's skills and expertise are put to the best possible use. In 2010, some 7.5% of Fluxys staff opted to take on a new role within the company.

## Development of skills and knowledge

Fluxys runs a wide range of training courses for its staff and believes it is important that they be given the opportunity to grow and develop throughout their careers. The company's training policy also ensures that the skills and knowledge gained by its staff reflect Fluxys' overall strategy, values and objectives.

In 2010, virtually all Fluxys staff followed training:




**New staff: a personal welcome**. Throughout their trial period, all new staff members follow a personalised induction programme. The programme includes training sessions on the procedures and working methods employed by Fluxys, site visits and information sessions to explain the company's activities. Managerial staff play an active role in the induction programme and are responsible, along with other staff, for settling new recruits into their team and new working environment.

Several pushed information sessions and training courses on specific topics are offered to enhance self-knowledge and develop behavioural skills and cross-company thinking.

**Preventing alcohol and drug abuse.** Pursuant to Collective Agreement No. 100 drawn up by the National Labour Council, Fluxys organised an optional information session on alcohol and drugs. Alcohol consumption and drug use in the workplace can be dangerous, damage workers' health and adversely affect their ability to do their job.

**Skills management.** Fluxys views skills management as a means of utilising the potential of its staff to the full, allowing them to develop professionally and supporting them in their work.

Fluxys is also fine-tuning its training administration tool. This tool is used, in close consultation with the Human Resources department, to identify staff training requirements more efficiently and to monitor and consolidate skills.

## Reward

Fluxys operates a transparent rewarding structure. In addition to individual performance-related remuneration, pursuant to Collective Agreement No. 90 drawn up by the National Labour Council, staff may be remunerated in line with the extent to which collective objectives are achieved. In 2010, objectives were set in connection with the yearly job evaluation cycle, cost control, attendance at training sessions, safety in the workplace and communication on company objectives and values. As the collective objectives were achieved at a level of 98%, staff received a one-off net bonus.

## Consolidating customer relations

One of Fluxys' initiatives in 2010 to improve its customer service involved setting up a new Marketing division within the company's Commercial department. The new division is responsible for assessing system users' requirements in a timely fashion to enable Fluxys' portfolio of services to keep pace and meet system users' needs. This new approach enables Fluxys to develop closer links with the market and anticipate market trends more efficiently.

## 2.3.2. Well-being at work

**Number of accidents.** In 2010, 10 accidents resulting in lost working time were recorded at Fluxys and Fluxys LNG. Although that figure is lower than in 2009, in general the number of accidents has remained stable since 2004. The severity of accidents fell, with 105 days' work having been lost during 2010.

**Comprehensive Health and Safety Plan.** Through its Comprehensive Health and Safety Plan, Fluxys takes steps to more effectively prevent accidents in the workplace. The Comprehensive Health and Safety Plan for the period 2010-2014 comprises 16 cross-company projects, which include a clear description of the action to be taken and the Fluxys departments concerned and form the basis for annual action plans. The 16 projects underwent two evaluations in 2010 and were adapted where necessary in line with the company's requirements.

The focal points for the Comprehensive Health and Safety Plan in 2010 included skills management, a risk analysis of psychosocial aspects of the workplace and review of local intervention plans. Other important issues were continued awareness among all staff of safety in the workplace and follow-up and implementation of the Comprehensive Health and Safety Plan projects completed in 2009.

**Actively raising awareness of a safety culture.** Fluxys is very diligent in providing training and support for all staff when it comes to safety risks, not only within its technical departments but also in its offices. Special emphasis is placed on regular safety visits to workplaces by line managers. Collaboration on prevention between all departments and between each individual department and contractors is paramount.

In 2010, a safety manual was compiled detailing the key rules governing safety to be observed by all persons in the field. A training course on well-being was organised for managerial staff to reiterate key safety aspects and in 2011, a similar refresher course will be run for technical and operational staff.

**Positive SSC audit.** Fluxys' Project Management, Supervision & Interventions and Cathodic Protection departments play an active role on work sites and hold a Safety Certification for Contractors (version 2004/04). Each year, an interim audit is being held, with a full re-certification audit being conducted every three years. In 2010, the interim audit was successful.

**Coordinating safety on temporary and mobile sites.** Right from the start of its infrastructure works, Fluxys puts in place a safety, health and environmental protection plan. The company also tries to communicate as much as possible with contractors both prior to and during the works, to ensure that all parties have been properly informed of the potential risks involved. Safety coordination within the company is also organised in such a way as to ensure that the required safety measures are standardised in both the design and implementation phases. They only need to be adjusted to take account of the specific nature and environment of each individual project.

In the case of larger scale projects, Fluxys works with external safety coordinators. Project leaders and study engineers who have completed level-B safety coordinator training are authorised to oversee smaller scale projects.

**Safety meeting with framework contractors.** During 2010, Fluxys twice invited its main framework contractors to a joint meeting to discuss various aspects of site safety and safety when carrying out maintenance work on Fluxys facilities. The purpose of the meetings was to ensure that the very highest safety standards are adhered to when work is being carried out as well as to enhance dissemination of information and organise safety inspections. In 2011, the initiatives prompted by discussions at these meetings will be assessed.

**Emergency plan exercise on site.** With a view to continuously improving the emergency procedures, Fluxys in collaboration with contractors and the emergency services organised two emergency exercises at construction sites for the new east/west transmission axis in 2010. The purpose of the exercises was to assess the accessibility of the accident site to the emergency services and to test the knowledge of emergency plans' provisions in the field, and to practice the flow of communication between all parties involved.

## 2.4. Environment

### 2.4.1. Key elements in environmental policy

**Systematically further reducing minimal environmental impact.** Traditional transmission modes are no match for underground pipeline transmission when it comes to use of space, safety, energy efficiency and environmental impact. Of all the various forms of transmission available, transmission by pipeline represents the lowest cost for society. With regard specifically to environmental impact, transmission by pipeline scores highly against all relevant indicators, i.e. noise, air pollution, soil pollution, visual impact and effects on the countryside. Fluxys' environmental policy is designed to further systematically limit the already minimal environmental impact and to this end the company utilises the best technologies available.

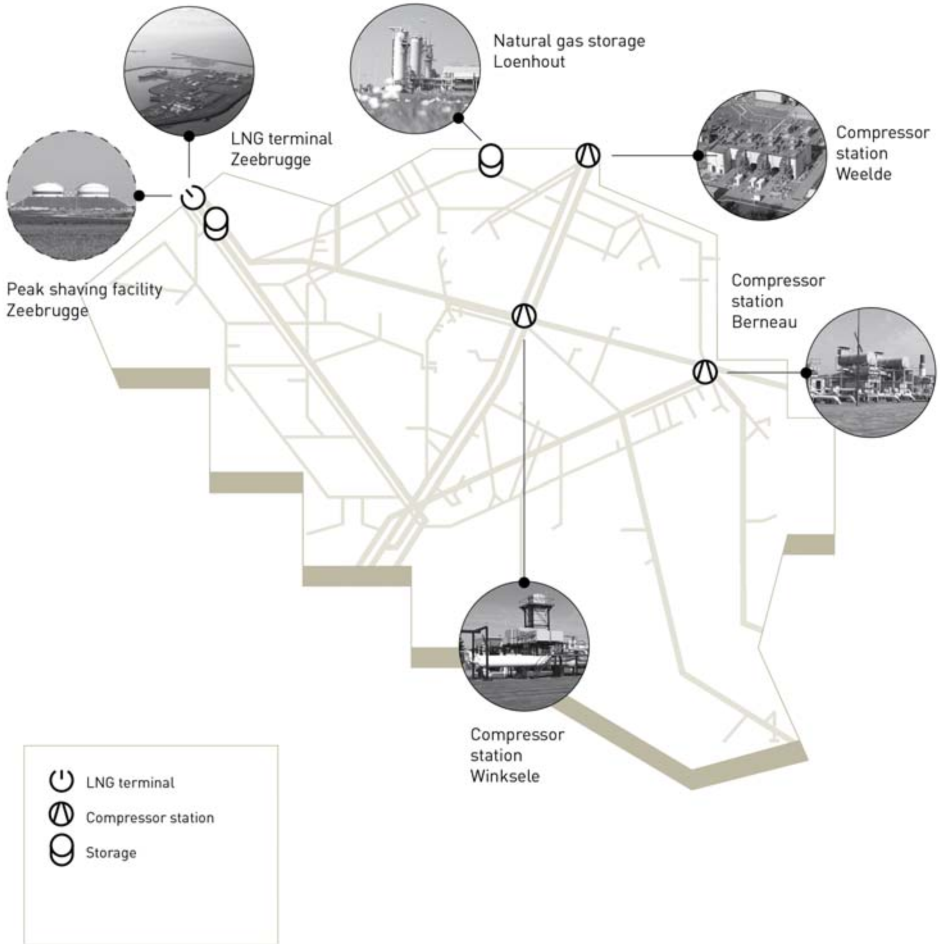
### 2.4.2. Kyoto sites

**Kyoto Protocol.** In line with the Kyoto Protocol, in 1990 the European Union set the maximum permitted level for production of greenhouse gases for the period 2008-2012 at 92% of 1990 emissions levels. The European Commission issued an Emissions Trading Directive in order to comply with these commitments. The directive took effect on 1 January 2005. In Belgium, tradable emissions are distributed across the three Regions. Within each Region, they are then allocated to each industrial site that emits a certain quantity of greenhouse gases.

**Six Kyoto sites.** Fluxys had six sites governed by the Kyoto Protocol in 2010. Following the closure of the peak-shaving facility in Zeebrugge, from 2011 onwards Fluxys will have only five Kyoto sites.

- In accordance with the EU directive, Fluxys holds $CO_2$ emission rights for each of its Kyoto sites.
- As per the directive, Fluxys applies monitoring protocols to its Kyoto sites. Monitoring protocols are sets of procedures used to monitor daily emissions of $CO_2$ and to report them by type of consumption. Every year all of the procedures undergo both an internal and external audit. Neither the internal nor external audits identified any non-conformities in 2010.

- Fluxys also prepares an annual emissions report for each Kyoto site in line with the directive. These reports are then audited externally. The conclusions of the external audit were also positive.



## 2.4.3. Focus on energy-efficiency

### Commitment to joining the global energy-efficiency elite

**Global benchmark.** On its own initiative, Fluxys joined the Flanders Benchmarking Covenant on energy efficiency (*Benchmarking Covenant Vlaanderen*), whereby the company made a commitment to channel the necessary investment into its Kyoto facilities in order to join and remain in the global energy-efficiency elite. The benchmarking involves comparing the energy performance of the sites in question every four years to comparable facilities around the world. Proposals are then drawn up within energy-management plans on improving energy efficiency. Each year, the relevant authority is sent a report on energy-efficiency monitoring during the year.

**Energy-management plans.** The first benchmarking exercise was carried out in 2006. It revealed that the LNG terminal and the Winksele compressor stations exceeded or equalled the target values, while the other Kyoto sites were very close to the target values. In 2008, these facilities also achieved the highest benchmarking standard.

In 2010, in line with the Benchmarking Covenant, the energy-management plans compiled in 2006 were updated. Research was carried out into whether new viable investment was available which could be used to enhance energy efficiency and what changes would be needed to achieve the new 2012 benchmark standards. The study found that the Fluxys facilities involved were among the best in the world in terms of energy efficiency and as such no new viable investment was identified besides the already approved investment decisions.

## Robust approach to rational use of energy (RUE)

**New infrastructure projects: energy study.** Fluxys carries out a thorough energy study into any project for new natural gas transmission infrastructure that will consume a significant amount of energy. This study is used to integrate the most effective solution for improving the project's energy efficiency.

**Buildings: energy-saving measures.** The Energy Performance and Indoor Climate Decrees passed by Flanders, Wallonia and the Brussels-Capital Region encourage the use of renewable energy sources and, among other measures, impose insulation criteria for new buildings and renovations. In accordance with these obligations, Fluxys is examining the possibility of implementing energy-saving measures in its new construction projects. This involves using low-energy lightning and solar water heaters or heat pumps to produce hot water. One of Fluxys' key projects in 2010 was the new administrative building at the compressor station in Winksele.

Fluxys' goal is to adopt the same proactive approach for all buildings in all the Regions. In 2010, the measures and recommendations prompted by the energy scan of Fluxys' registered office in Brussels in 2008 continued to be implemented. An action plan based on the energy scan was also initiated for the company's sectoral headquarters in Grâce-Hollogne.

**LNG terminal: open rack vaporiser.** In connection with the environmental permit for the first capacity enhancement of the Zeebrugge LNG terminal (2004-2008), Fluxys looked into the feasibility of adding an open rack vaporiser (ORV) to the new regasification facility. ORVs heat LNG using heat from seawater and their use would lead to a significant reduction in energy consumption. Less frequent use of conventional LNG vaporisers would also mean a reduction in emissions of $CO_2$ and $NO_x$.

In 2009, Fluxys decided to build an open rack vaporiser and in June 2010 an environmental permit for the project was issued. The environmental balance of the ORV is excellent: once it is operational, the ORV can be used in combination with the combined heat and power plant to regasify 62% of LNG at the terminal in the most energy-efficient manner each year. Although electricity consumption will rise slightly, primary energy usage will fall by 35%. In addition, emissions of $NO_x$ will drop by 25%, while those of $CO_2$ will be reduced by 32% a year.

## 2.4.4. Indicators

### Soil

Within the framework of its policy to decommission pipelines as safely as possible, in mid-October 2010 Fluxys launched a programme to permanently decommission 188 km of disused pipeline. By late 2010, decommissioning of the first 10 km had been completed. Where necessary, the pipelines were first cleaned of any residue and where the disused pipes were located beneath roads, they were filled with a hardened substance to prevent subsidence.

### Noise

Stations. In recent years, Fluxys has carried out studies and pilot projects on silencing technology. This technology is fitted as standard in new stations and is gradually being implemented in existing stations. For example, low-noise pressure-reducing equipment is being installed in various stations. In addition to the acoustic insulation, in 2010 further alterations were made to the Merelbeke pressure-reducing station. Action plans are also under way to further reduce noise levels at Winksele, Berneau and Raeren.

Sites. An external company took noise-level readings on Fluxys sites with a view to ascertaining the precise sound levels experienced by local residents and wildlife. It emerged from the study that the steps routinely taken by Fluxys are broadly sufficient to keep noise nuisance to an acceptable level.

## Air

Fluxys systematically measures emissions at all of its combustion units. These systematic measurements enable the company to fine-tune its units so as to increase their energy efficiency and keep levels of harmful emissions to a minimum.

Fluxys mainly uses natural gas to operate its transmission infrastructure. The combustion of natural gas produces $NO_x$ and $CO_2$ and pressure-reducing stations can also produce a small amount of methane ($CH_4$). Methane may also be emitted during work on pipelines or when compressor stations are started or stopped.

## Nature conservation

Fluxys takes great pains to conserve ecosystems in areas where pipelines are laid. Where required, the company carries out environmental impact assessments for new projects; these environmental impact assessments must be approved by the relevant authorities.

**Environmental Impact Assessments.** The following environmental impact assessments were submitted in 2010 and approved by the authorities:

- laying of a pipeline between Merelbeke and Zwijnaarde;
- laying of a pipeline in Dilsen for an energy project;
- construction of a gas quality unit at the peak-shaving facility in Zeebrugge;
- laying of a pipeline between the peak-shaving facility in Zeebrugge and Dudzele Oostkerkestraat;
- extension of the LNG terminal with a second jetty.

The following environmental impact assessments are currently under way:

- laying of a pipeline between Tessenderlo and Diest;
- laying of a pipeline between Wilsele and Loenhout;
- laying of a pipeline between Herentals and Ham;
- laying of a pipeline between Zomergem and Opwijk;
- laying of a pipeline between Balen and Leopoldsburg;
- laying of a pipeline between Ben-Ahin and Bras;
- laying of a pipeline between Winksele and Quévy;
- repermitting of the underground storage facility in Loenhout;
- extension of the LNG terminal to include a fifth LNG storage tank.

**Promoting nature.** The route of the new Fluxys RTR2 pipeline in the Fouron region runs close to the *Berwinne* river. Fluxys has bought a piece of land close to the river where it plans to work with the Flemish authorities to implement a natural development plan. The plan was approved by the Flemish authorities in 2009 and will be implemented step by step once the pipeline is laid. It essentially involves planting hedges and wooded banks to provide added rural value and to shore up the ecosystem formed by the *Berwinne* and its surrounding flora and fauna.

An environmental landscape assessment was also conducted when designing the valve junction on the RTR pipeline at Tongeren. Plants which are typical of the area will be cultivated there to ensure that the junction will blend into its natural surroundings. The study was completed in 2010 and was added to an application for a construction permit.

# CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS

3

# CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS

# I. General information on the company

## Corporate name and registered office

The registered office of the parent company Fluxys SA is Avenue des Arts 31, B – 1040 Brussels, Belgium.

## Group activities

The main activities of Fluxys group are the transmission and storage of natural gas as well as terminalling services for liquefied natural gas (LNG) in Belgium. Fluxys group also carries out complementary services related to these main activities.

The transmission, storage and LNG terminalling services in Belgium are subject to the Gas Law[5].

Please refer to the specific chapters in the directors' report for further information on the activities of Fluxys group.

[5] Act of 12 April 1965 concerning the transmission of gaseous and other products by pipelines as later amended.

# II. Consolidated financial statements of the Fluxys group under IFRS

## A. Consolidated balance sheet

| Consolidated balance sheet | | | In thousands of € |
|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 |
| **I. Non-current assets** | | **2,827,466** | **2,739,610** |
| Property, plant and equipment | 12 | 2,444,505 | 2,326,330 |
| Intangible assets | 13 | 295,353 | 296,485 |
| Goodwill | 14 | 0 | 3,465 |
| Other financial assets | 16 | 39 | 84,242 |
| Finance lease receivables | 17 | 27,370 | 29,088 |
| Loans and receivables | 18/33/35 | 60,199 | 0 |
| Deferred tax assets | 28 | 0 | 0 |
| | | | |
| **II. Current assets** | | **724,267** | **704,555** |
| Inventories | 19 | 51,902 | 67,851 |
| Other current financial assets | 33 | 24,368 | 23,250 |
| Finance lease receivables | 17 | 1,718 | 1,395 |
| Current tax receivable | 20 | 2,525 | 4,838 |
| Trade and other receivables | 21 | 59,998 | 64,511 |
| Short-term investments | 22 | 18,592 | 16,025 |
| Cash and cash equivalents | 22 | 559,173 | 514,389 |
| Other current assets | 23 | 5,991 | 12,296 |
| **Total assets** | | **3,551,733** | **3,444,165** |

| Consolidated balance sheet | | | In thousands of € |
|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 |
| **I. Equity** | 24 | **1,400,717** | **1,388,995** |
| Equity attributable to the equity holders of the parent | | 1,400,716 | 1,369,083 |
| Share capital and share premiums | | 60,310 | 60,310 |
| Retained earnings and other reserves | | 1,340,406 | 1,309,992 |
| Translation adjustments | | 0 | -1,219 |
| Non-controlling interests | | 1 | 19,912 |
| **II. Non-current liabilities** | | **1,761,342** | **1,659,646** |
| Interest-bearing borrowings | 25 | 1,161,314 | 1,040,580 |
| Provisions | 26 | 29,016 | 23,542 |
| Provisions for employee benefits | 27 | 58,925 | 65,165 |
| Deferred tax liabilities | 28 | 512,087 | 530,359 |
| **III. Current liabilities** | | **389,674** | **395,524** |
| Interest-bearing borrowings | 25 | 86,366 | 81,998 |
| Provisions | 26 | 178,796 | 178,232 |
| Provisions for employee benefits | 27 | 3,965 | 4,342 |
| Other current financial liabilities | 33 | 3,005 | 3,806 |
| Current tax payable | 29 | 15,129 | 11,717 |
| Trade and other payables | 30 | 100,314 | 113,034 |
| Other current liabilities | 31 | 2,099 | 2,395 |
| **Total liabilities and equity** | | **3,551,733** | **3,444,165** |

## B. Consolidated income statement

| Consolidated income statement | | | In thousands of € |
|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 |
| Operating revenue | 4 | 657,715 | 688,030 |
| Other operating income | 5 | 11,488 | 8,360 |
| Consumables, merchandise and supplies used | 6 | -34,262 | -30,332 |
| Miscellaneous goods and services | 6 | -144,091 | -159,562 |
| Employee expenses | 6 | -119,881 | -114,615 |
| Other operating charges | 6 | -39,165 | -9,514 |
| Depreciation and amortisation | 6 | -115,865 | -122,830 |
| Provisions | 6 | -243 | -77,468 |
| Impairment losses | 6 | 1,998 | -115 |
| **Profit from continuing operations** | | **217,694** | **181,954** |
| Gain/loss on disposal of financial assets | 7a | 121,943 | 198 |
| Change in the fair value of financial instruments | 8 | 828 | 668 |
| Financial income | 7b | 18,578 | 11,603 |
| Financial expenses | 8 | -52,728 | -40,554 |
| **Profit/loss from continuing operations after net financial results** | | **306,315** | **153,869** |
| Income tax expense | 9 | -58,625 | -48,712 |
| **Net profit for the period** | 10 | **247,690** | **105,157** |
| Fluxys share | | 247,355 | 103,242 |
| Non-controlling interests | | 335 | 1,915 |
| Basic earnings per share, attributable to equity holders of the parent in € | 11 | 352.0 | 146.9 |
| Diluted earnings per share attributable to equity holders of the parent in € | 11 | 352.0 | 146.9 |

# C. Consolidated statement of comprehensive income

| Consolidated statement of comprehensive income | | | In thousands of € |
|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 |
| **Net profit for the period** | 10 | **247,690** | **105,157** |
| Actuarial gains/losses on provisions for post-employment benefits | 26 | 3,738 | 5,203 |
| Translation adjustments | | 97 | 511 |
| Income tax expense on other comprehensive income | | -1,271 | -1,768 |
| Other comprehensive income | | 2,564 | 3,946 |
| **Comprehensive income for the period** | | **250,254** | **109,103** |
| Fluxys share | | 249,919 | 107,181 |
| Non-controlling interests | | 335 | 1,922 |

## D. Consolidated statement of changes in equity

| Consolidated statement of changes in equity | | | | | | | | | In thousands of € |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Retained earnings | Other reserves | Translation adjustments | Treasury shares | Equity attributable to equity holders of the parent | Non-controlling interests | Total equity |
| I. CLOSING BALANCE AS AT 31-12-2008 (restated) | 60,272 | 38 | 1,262,742 | -10,236 | -1,730 | 0 | 1,311,086 | 19,677 | 1,330,763 |
| 1. Comprehensive income for the period | | | 103,242 | 3,428 | 511 | | 107,181 | 1,922 | 109,103 |
| 2. Dividends paid | | | -49,184 | | | | -49,184 | -1,687 | -50,871 |
| 3. Change in consolidation scope | | | | | | | 0 | | 0 |
| 4. Other change | | | | | | | 0 | | 0 |
| II. CLOSING BALANCE AS AT 31-12-2009 | 60,272 | 38 | 1,316,800 | -6,808 | -1,219 | 0 | 1,369,083 | 19,912 | 1,388,995 |

| Consolidated statement of changes in equity | | | | | | | | | In thousands of € |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Retained earnings | Other reserves | Translation adjustments | Treasury shares | Equity attributable to equity holders of the parent | Non-controlling interests | Total equity |
| I. CLOSING BALANCE AS AT 31-12-2009 | 60,272 | 38 | 1,316,800 | -6,808 | -1,219 | 0 | 1,369,083 | 19,912 | 1,388,995 |
| 1. Comprehensive income for the period | | | 247,355 | 2,467 | 97 | | 249,919 | 335 | 250,254 |
| 2. Dividends paid | | | -209,386 | | | | -209,386 | -450 | -209,836 |
| 3. Change in consolidation scope | | | -10,010 | -12 | 1,122 | | -8,900 | -19,796 | -28,696 |
| 4. Other change | | | | | | | 0 | | 0 |
| II. CLOSING BALANCE AS AT 31-12-2010 | 60,272 | 38 | 1,344,759 | -4,353 | 0 | 0 | 1,400,716 | 1 | 1,400,717 |

# E. Consolidated statement of cash flows (indirect method)

| Consolidated statement of cash flows (indirect method) | In thousands of € | |
|---|---|---|
| | 31-12-2010 | 31-12-2009 |
| **I. Cash and cash equivalents, beginning balance** | **514,389** | **166,658** |
| | | |
| **II. Net cash flows relating to operating activities** | **279,745** | **354,363** |
| **1. Cash flows from operating activities** | **353,631** | **418,155** |
| **1.1.** Profit from operations | 217,694 | 181,954 |
| **1.2.** Non cash adjustments | 114,463 | 201,028 |
| 1.2.1. Depreciation and amortisation | 115,865 | 122,830 |
| 1.2.2. Provisions | 243 | 77,468 |
| 1.2.3. Impairment losses | -1,998 | 115 |
| 1.2.4. Translation adjustments | 96 | 276 |
| 1.2.5. Other non cash adjustments | 257 | 339 |
| **1.3.** Changes in working capital | 21,474 | 35,173 |
| 1.3.1. Inventories | 15,949 | 24 |
| 1.3.2. Tax receivable | 2,313 | 21,287 |
| 1.3.3. Trade and other receivables | 4,513 | 7,272 |
| 1.3.4. Other current assets | 6,305 | -5,052 |
| 1.3.5. Tax payable | 3,412 | 3,356 |
| 1.3.6. Trade and other payables | -12,720 | 9,375 |
| 1.3.7. Other current liabilities | -296 | -1,089 |
| 1.3.8. Other changes in working capital | 1,998 | 0 |
| **2. Cash flows relating to other operating activities** | **-73,886** | **-63,792** |
| **2.1.** Tax receivable | -80,303 | -68,701 |
| 2.1.1. Income taxes | -58,625 | -48,712 |
| 2.1.2. Deferred taxes | -21,678 | -19,989 |
| **2.2.** Interest from marketable securities, cash and cash equivalents | 6,138 | 4,988 |
| **2.3.** Other inflows (outflows) relating to other operating activities | 279 | -79 |
| | | |
| **III. Net cash flows relating to investing activities** | **-16,939** | **-312,070** |
| **1. Acquisitions** | **-435,080** | **-318,326** |
| **1.1.** Payments to acquire property, plant and equipment, and intangible assets | -396,098 | -237,071 |
| **1.2.** Payments to acquire subsidiaries, joint ventures or associates | 0 | 0 |
| **1.3.** Payments to acquire other financial assets | -38,982 | -81,255 |

| Consolidated statement of cash flows (indirect method) | In thousands of € | |
|---|---|---|
| | 31-12-2010 | 31-12-2009 |
| **2. Disposals** | **377,445** | **6,108** |
| 2.1. Proceeds from disposal of property, plant and equipment, and intangible assets | 33,772 | 5,900 |
| 2.2. Proceeds from disposal of subsidiaries, joint ventures or associates | 340,692 | 0 |
| 2.3. Proceeds from disposal of other financial assets | 2,981 | 208 |
| **3. Dividends received classified as investing activities** | **6,266** | **148** |
| **4. Government grants received** | **34,430** | **0** |
| **5. Other cash flows relating to investing activities** | **0** | **0** |
| | | |
| **IV. Net cash flows relating to financing activities** | **-218,022** | **305,438** |
| **1. Proceeds from cash flows from financing** | **132,377** | **497,925** |
| 1.1. Proceeds from issuance of equity instruments | 0 | 0 |
| 1.2. Proceeds from issuance of treasury shares | 0 | 0 |
| 1.3. Proceeds from finance leases | 1,395 | 1,096 |
| 1.4. Proceeds from other non-current assets | -60,199 | 228 |
| 1.5. Proceeds from issuance of compound financial instruments | 0 | 0 |
| 1.6. Proceeds from issuance of other financial liabilities | 191,181 | 496,601 |
| **2. Repayments relating to cash flows from financing** | **-94,079** | **-94,680** |
| 2.1. Repurchase of equity instruments subsequently cancelled | -28,000 | 0 |
| 2.2. Purchase of treasury shares | 0 | 0 |
| 2.3. Repayment of finance lease liabilities | -19,321 | -19,052 |
| 2.4. Redemption of compound financial instruments | 0 | 0 |
| 2.5. Repayment of other financial liabilities | -46,758 | -75,628 |
| **3. Interest** | **-43,917** | **-30,911** |
| 3.1. Interest paid classified as financing | -44,259 | -31,506 |
| 3.2. Interest received classified as financing | 342 | 595 |
| **4. Dividends paid** | **-209,836** | **-50,871** |
| **5. Increase (-) / Decrease (+) of short-term investments** | **-2,567** | **-16,025** |
| **6. Bank overdrafts increased (decreased)** | **0** | **0** |
| **7. Other cash flows relating to financing activities** | **0** | **0** |
| | | |
| **V. Net increase in cash and cash equivalents** | **44,784** | **347,731** |
| | | |
| **VI. Cash and cash equivalents, ending balance** | **559,173** | **514,389** |

# III. Notes

## Note 1a. Statement of compliance with IFRS

The consolidated financial statements of the Fluxys group have been prepared in accordance with the International Financial Reporting Standards, as approved by the European Union. All figures are stated in thousands of euro.

## Note 1b. Judgment and use of estimates

The preparation of financial statements requires the use of estimates and assumptions to determine the value of assets and liabilities, to assess the positive and negative consequences of unforeseen situations and events at the balance sheet date, and to form a judgment as to the revenues and expenses of the fiscal year.

Significant estimates made by the group in the preparation of the financial statements relate mainly to the evaluation of the recoverable amount of property, plant and equipment, and intangible assets, and the valuation of provisions, in particular for litigation and for pension and related liabilities.

Due to the uncertainties inherent in all valuation processes, the group revises its estimates on the basis of regularly updated information. Future results may differ from these estimates.

Other than the use of estimates, group management also uses judgment in defining the accounting treatment for certain operations and transactions not addressed under the IFRS standards and interpretations currently in force.

As more fully described in the 2009 annual report Fluxys has appealed against the tariff decisions made by CREG in 2008.

In the absence of final legal judgments at the date of issuance of these financial statements, the effects incorporated into the financial statements in 2008 and 2009 remain unchanged.

In late 2009, Fluxys and CREG agreed new multi-year tariffs applying to natural gas transmission and storage from 1 January 2010, for all grid users.

However, some grid users have appealed against the CREG decision before the Brussels Court of Appeal.

## Note 1c. Date of authorisation for issue

The Board of Directors of Fluxys SA authorised these IFRS financial statements for issue on 16 March 2011.

## Note 1d. Changes or additions to the accounting principles and policies

No changes or additions were made to the accounting principles in 2010.

## Note 1e. Adoption of new accounting principles or revised IFRS standards

At the date of authorisation of these financial statements, the standards and interpretations listed below have been issued but are not yet mandatory:

– IFRS 9: Financial Instruments (applicable for annual periods beginning on or after 1 January 2013)
– Improvements to IFRS (2009-2010) (under normal circumstances, applicable for annual periods beginning on or after 1 January 2011)
– Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards – Exemptions on IFRS 7 (under normal circumstances, prospectively applicable for annual periods beginning on or after 1 July 2010)
– Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (applicable for annual periods beginning on or after 1 July 2011)
– Amendments to IFRS 7: Financial Instruments: Disclosures – Derecognition (applicable for annual periods beginning on or after 1 July 2011)
– Amendments to IAS 12: Income Taxes – Deferred Tax: Recovery of Underlying Assets (applicable for annual periods beginning on or after 1 January 2012)

- Amendments to IAS 24: Related Party Disclosures (applicable for annual periods beginning on or after 1 January 2011). This version of the standard replaces the version published in 2003
- Amendments to IAS 32: Financial Instruments: Presentation – Classification of Rights Issues (applicable for annual periods beginning on or after 1 February 2010)
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual periods beginning on or after 1 July 2010)
- Amendments to IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement (applicable for annual periods beginning on or after 1 January 2011)

Group management believes that the application of these standards and interpretations will have no material impact on the group's financial statements in the future.

# Note 2. Accounting principles and policies

The accounting principles and policies set out below were approved at the Fluxys Board of Directors meeting of 10 March 2010.

Changes or additions compared to 2008 are <u>underlined</u>.

## 2.1. General principles

The financial statements fairly present Fluxys group's financial position, results of operations and cash flows.

The group's financial statements have been prepared on the accrual basis of accounting, except for the statement of cash flows.

Assets and liabilities have not been offset against each other, except when required or allowed by an international accounting standard.

Current and non-current assets and liabilities have been presented separately in the balance sheet.

The accounting policies have been applied in a consistent manner.

## 2.2. Basis of consolidation

Fluxys group's consolidated financial statements have been prepared in accordance with IFRS, in particular IFRS 3 (Business Combinations), IAS 27 (Consolidated and Separate Financial Statements), IAS 28 (Investments in Associates) and IAS 31 (Interests in Joint Ventures).

Subsidiaries (controlled by the group) are fully consolidated (IAS 27), joint ventures (jointly controlled) are consolidated using proportionate consolidation (IAS 31) and associates (upon which the group has significant influence) are accounted for under the equity method (IAS 28).

Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the contractually agreed sharing of control.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control or joint control over these policies (applicable for annual periods beginning on or after 1 July 2009)

An associate is not accounted for under the equity method if its impact on the financial statements is immaterial.

### 2.3. Balance sheet date

The consolidated financial statements are prepared as of 31 December, i.e. the parent company's balance sheet date.

When the balance sheet date of a subsidiary, a joint venture, or an associate falls between 30 September and 31 December, its financial statements are used as they stand. However, if significant transactions or events occur between the balance sheet date of the subsidiary, the joint venture, or the associate and 31 December, adjustments are made to account for the impact of these significant transactions and other events.

If the balance sheet date is prior to 30 September, interim financial statements are prepared as at 31 December for consolidation purposes.

### 2.4. Events after the balance sheet date

The carrying amount of assets and liabilities at the balance sheet date is adjusted when events after the balance sheet date provide evidence of conditions that existed at the balance sheet date.

Adjustments can be made until the date of authorization for issue of the financial statements by the Board of Directors.

Other events relating to circumstances arising after balance sheet date are disclosed in the notes to the consolidated financial statements, if significant.

## 2.5. Translation of foreign entities' financial statements

For consolidation purposes, the assets and liabilities of the group's foreign operations are translated into euro at the exchange rate prevailing at the balance sheet date. Income and expenses are translated at the average exchange rate for the period unless the exchange rate has fluctuated significantly during the year.

The group's share of the resulting exchange differences is reported as translation adjustment in the equity section of the balance sheet, whereas the non-controlling interests' share in those differences is reported as 'non-controlling interests' in equity.

## 2.6. Goodwill

Goodwill represents the excess, at acquisition date, of the cost of a business combination over the purchaser's share in the net fair value of identifiable assets, liabilities and contingent liabilities.

- If this difference is positive, goodwill is recognized as an asset. An impairment test is carried out each year, even when there is no indication that goodwill may have been impaired, or more frequently if events or changes in circumstances indicate that goodwill may have been impaired (IFRS 3 – Business Combinations).
- If the difference is negative, negative goodwill is recognized in the income statement.

## 2.7. Intangible assets

An intangible asset is recognized as an asset if it is probable that future economic benefits attributable to the asset will flow to the enterprise and if the cost of the asset can be measured reliably.

Intangible assets are recognized at cost in the balance sheet (cost method), less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with a limited useful life are amortised over their useful life.

Computer software is amortised at 20% per annum.

Subsequent expenditure is capitalized if it generates economic benefits exceeding the initial standard of performance.

Intangible assets are reviewed at each balance sheet date to identify indications of potential impairment that may have arisen during the fiscal year. In case such indications are noted, an estimate of the recoverable amount of the intangible assets in question is made. The recoverable amount is defined as the higher of the fair value less costs to sell of an asset and its value in use.

The value in use is calculated by discounting future cash inflows and outflows generated by the continuous use of the asset and its final disposal at an appropriate discounting rate.

Intangible assets are impaired when their carrying amount exceeds the amount that can be recovered, as a result of obsolescence of these assets or due to economic or technological circumstances.

Intangible assets with an indefinite useful life are subject to an annual impairment test, and an impairment loss is recognized when their carrying amount exceeds their recoverable amount.

The useful life, the amortisation method, as well as the potential residual value of intangible assets are reassessed at each balance sheet date and revised prospectively, if applicable.

### Emission rights for greenhouse gases

Emission rights for greenhouse gases acquired at fair value are recognized as intangible assets at their acquisition cost. Rights granted free of charge are recognized as intangible assets at a nil book value.

The emission of greenhouse gases in the atmosphere is recognized as an operating expense, the corresponding entry being a liability for the obligation to deliver allowances covering the effective emission over the period concerned (other debts). This expense is measured by reference to the weighted average cost of the acquired or granted allowances.

This liability is derecognized on the delivery of allowances to the government by withdrawing emission rights from intangible assets.

In case the allowances are insufficient to cover the emission of greenhouse gases during the fiscal year, the group establishes a provision. This provision is measured by reference to the market value at the balance sheet date of the allowances yet to be purchased.

The excess emission rights not sold on the market are valued at the balance sheet date by reference to the weighted average cost of the acquired or granted allowances, or at market value if lower than the weighted average cost.

### 2.8. Property, plant and equipment

Property, plant and equipment (PPE) is recognized as an asset if it is probable that future economic benefits attributable to the asset will flow to the enterprise and if the cost of the asset can be measured reliably.

PPE is recognized at cost in the balance sheet (cost method), less any accumulated depreciation and any accumulated impairment losses.

Subsequent expenditure is capitalized if it generates economic benefits exceeding the initial standard of performance.

PPE is reviewed at each balance sheet date to identify indications of potential impairment that may have arisen during the financial year. In the event that such indications are noted, an estimate of the recoverable amount of the PPE in question is established. The recoverable amount is defined as the higher of the fair value less costs to sell of an asset and its value in use.

The value in use is calculated by discounting future cash inflows and outflows generated by the continuous use of the asset and its final disposal at an appropriate discounting rate.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards included in the ownership of an asset to the lessee. Assets held under these contracts are recognized at the lower of their fair value and the present value of the minimum lease payments under the lease contracts. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability for each period.

### Capital subsidies and tax deductions for investment

Subsidies related to property, plant and equipment as well as contributions by third parties in the funding of such assets are deducted from the acquisition cost of these assets.

The tax benefit arising from the deductions for investment reduces the gross value of the related assets, the corresponding entry being deferred taxes.

### Depreciation methods

PPE is depreciated over its useful life.

Each significant component of PPE is recognized separately and depreciated over its useful life.

The depreciation method reflects the rate at which the group expects to consume the future economic benefits related to the asset.

The regulated investments intended to increase the security of supply in Europe are depreciated under a diminishing balance method, which more accurately reflects the rate at which the group expects to consume the future economic benefits of these assets.

The main useful lives are as follows:

- 50 years for pipelines related to transmission in Belgium, terminalling facilities and tanks,
- 50 years for administrative buildings and staff housing and facilities,
- 40 years for storage and LNG ship facilities,
- 33 years for industrial buildings,
- 20 years for investments related to the extension of the Zeebrugge LNG terminal,
- 10 years for equipment and furniture,
- 5 years for vehicles and site machinery,
- 4 years for computer hardware,
- 3 years for prototypes,
- 10 to 40 years for other installations.

The useful life, the depreciation method and the potential residual value of PPE are reassessed at each balance sheet date and revised prospectively, if applicable.

### 2.9. Unconsolidated investments (such as shares and equity rights)

Unconsolidated equity investments are recognized at fair value or at cost if their fair value cannot be reliably established.

Changes in fair value are recognized directly in other comprehensive income until the asset is derecognized, at which time the cumulative amount in other comprehensive income is transferred from equity to the income statement. In case of objective indications of impairment of unconsolidated equity investments, an impairment test is carried out, and, if necessary, an impairment loss is directly recognized in the income statement.

### 2.10. Finance lease receivables

Assets under finance lease are assets for which the group transfers substantially all risks and rewards related to the economic ownership to the lessee. Assets leased under such contracts are recognized on the balance sheet as receivables in an amount equal to the net investment in the lease contract in question. Lease payments are apportioned between financial income and a reduction of the lease receivable so as to achieve a constant rate of return on the net investment by the group in the finance lease contract.

When the classification of contracts under finance lease is based on the present value of the minimum lease payments, the following criteria is adopted: a contract is considered as finance lease if the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset at the inception of the lease contract. No residual value is assumed for gas transmission assets in Belgium, due to the specific nature of the activities concerned.

## 2.11. Inventories

### Valuation

Inventories are valued at the lower of cost and net realisable value.

Inventories are written down to account for:

- a reduction in net realisable value, or
- impairment losses due to unforeseen circumstances related to the nature or use of the assets.

These write-offs on inventories are recognized to the income statement in the period in which they arise.

### Gas inventory

Gas inventory changes are valued under the weighted average cost method.

### Supplies and consumables

Supplies and consumables are valued under the weighted average cost method.

### Work in progress

Work in progress for third parties is valued at cost, including indirectly attributable costs.

When the outcome of a contract can be reliably estimated, contract revenue and expenses are recognized as revenue and expenses respectively by reference to the stage of completion of the contract at balance sheet date. Any expected loss is recognized immediately as an expense in the income statement.

## 2.12. Borrowing costs

Borrowing costs directly attributable to the acquisition, building or production of assets requiring a substantial period of time to get ready for their intended use (property, plant and equipment, inventories, investment property, etc.) are added to the costs of the assets concerned until they are ready for use or sale.

The amount of the borrowing costs to be capitalized is the actual cost incurred in borrowing the funds, as reduced by income from any temporary investment of these funds.

## 2.13. Financial instruments

### Investments

Investments in financial instruments with a maturity date exceeding three months at their acquisition date are reported as financial assets at fair value with changes to the income statement. Changes in the fair value of these financial assets are directly recognized in the income statement.

### Derivative instruments not designated as hedging instruments

Fluxys group uses derivative financial instruments to hedge its exposure to exchange and interest rate risks.

Certain financial instruments, although hedging clearly defined risks, do not meet the strict criteria for the application of hedge accounting under IAS 39 – Financial Instruments: Recognition and Measurement.

Changes in the fair value of these financial instruments are directly recognized in the income statement.

## 2.14. Cash and cash equivalents

Cash and cash equivalents include marketable securities, short-term bank deposits and deposits readily convertible to a known cash amount, which are subject to an insignificant risk of changes in value (maximum of three months).

Cash equivalents are reported at fair value with changes to the income statement. Changes in the fair value of these financial assets are directly recognized in the income statement.

### 2.15. Trade and other receivables

Trade and other receivables are stated at their nominal value reduced by any amounts deemed unrecoverable.

When the time value of money is significant, trade and other receivables are discounted.

Impairment losses are recognized when the carrying value of these items at balance sheet date exceeds their recoverable amount.

### 2.16. Provisions

Provisions are recognized as a liability in the balance sheet when they meet the following criteria:

- the group has a present (legal or constructive) obligation arising from past events, and
- it is probable (i.e. more likely than not) that the settlement of this obligation will lead to an outflow of resources embodying economic benefits, and
- the amount of the obligation can be reliably estimated.

No provision is recognized if the above conditions are not met.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, in other words the amount the enterprise reasonably expects to need to pay to discharge the obligation at balance sheet date, or to transfer it to a third party at the same date.

This estimation is based either on a request from a third party or on estimates or detailed calculations. For all provisions recognized, management considers that the probability of an outflow of resources exceeds 50%.

When the time value of money is significant, provisions are discounted. The discount rate used is a rate before tax reflecting current market estimates of the time value of money and taking into account any risks associated with the type of liability in question.

All risks incurred by the group that do not comply with the above-mentioned criteria are disclosed as contingent liabilities in the Notes to the consolidated financial statements.

### Provisions for pension benefits and other collective agreements

Fluxys has established supplementary defined benefit and defined contribution pension plans; benefits provided under these plans are based on the number of years of service and the final pay.

**'Defined benefit' pension plans** enable employees to benefit from a capital sum calculated on the basis of a formula which takes account of their annual salary at the end of their career and their seniority when they retire.

**'Defined contribution' pension plans** provide employees with a capital sum accumulated from personal and employer contributions.

In case of death before retirement, both plans provide a capital sum for the surviving spouse, as well as allowances for orphans.

### Valuation

Pension plans are valued annually by a qualified actuary. Regular payments made in relation to the supplementary pension plans are recognized as expenses at the time they are incurred.

Provisions for pensions and other collective agreements are reported in the balance sheet in accordance with IAS 19 (Employee benefits), using the projected unit credit method.

### Actuarial gains and losses relating to post-employment benefits

Actuarial gains and losses arising on the measurement of the unfunded defined benefit obligation are not charged or credited to the income statement. They are recognized directly in equity as other comprehensive income.

## 2.17. Interest-bearing liabilities

Interest-bearing liabilities are recognized at the net amount received. Following initial recognition, interest-bearing liabilities are recorded at amortised cost. The difference between the amortised cost and the redemption value is recognized in the income statement under the effective interest rate method over the term of the liabilities.

## 2.18. Trade payables

Trade payables are stated at nominal value.

When the time value of money is significant, trade payables are discounted.

## 2.19. Foreign currency assets, rights, borrowings and commitments

### Recognition at the date of the transaction

Foreign currency receivables and payables are measured at the exchange rate prevailing at the transaction date.

### Measurement at balance sheet date

At balance sheet date, in accordance with IAS 21 (Effects of Changes in Foreign Exchange Rates), monetary assets and liabilities, as well as rights and commitments, are translated at the closing rate. The resulting foreign currency transaction gains and losses are recognized in the income statement.

## 2.20. Revenue recognition

Revenue is measured at the fair value of the consideration received or to be received, in case revenue is deemed to belong to the company and the fair value can be measured reliably.

Regulated revenues received by the group may generate a gain or a loss compared to the target rate of return on the capital invested. Gains are recognized as regulatory liabilities (current or non-current) in the balance sheet, whereas losses are deferred as regulatory assets (current or non-current) in the balance sheet.

## 2.21. Income taxes

Current tax liabilities are determined in accordance with local tax regulations and are calculated on the income of the parent company and its subsidiaries, and the share of the income of the joint ventures.

Deferred tax liabilities and assets reflect the future taxable and deductible temporary differences, respectively, between the book base and the tax base of assets and liabilities.

Deferred tax liabilities and assets are measured at the enacted or substantially enacted income tax rate applicable to the financial year in which the underlying asset is expected to be realized or the underlying liability settled.

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the future deductible temporary differences can be offset.

# Note 3. Acquisitions, disposals and restructuring

## Changes in the consolidation scope

### Acquisitions

Fluxys LNG:
Fluxys SA acquired the 6.8% stake Electrabel held in Fluxys LNG for €28 million, thereby making Fluxys LNG, which provides terminalling services, a wholly-owned subsidiary of Fluxys SA with effect from 1 January 2010 in the consolidated financial statements.

The value of this stake in the consolidation was €19.1 million. The difference between this value and the acquisition price of €28 million was €8.9 million. This amount has been deducted from the group's share of equity.

Guimard SA:
Fluxys group acquired the whole of the company Guimard SA for €11.7 million with effect from 1 April 2010 in the consolidated financial statements.

Guimard SA's sole activity is its ownership of a building largely accommodating Fluxys staff.

Fluxys Deutschland:
As part of the deployment of its activities abroad, Fluxys Europe set up the company Fluxys Deutschland in July 2010, after concluding a Term Sheet with Wingas confirming the intention to acquire from Wingas a 19% stake in the North European Gas Pipeline (NEL).

The NEL link is one of two pipelines planned in Germany for accommodating downstream flows from the Nord Stream pipeline which is going to bring additional volumes of Russian natural gas through the Baltic Sea to Europe.

## Introduction

As part of the restructuring of the Fluxys group detailed below, the following companies changed their names:

- Fluxys Europe SA is now called Fluxys Finance SA,
- Fluxys NL BV is now called Fluxys Europe BV, and
- Fluxys Holding SA has become Fluxys G SA.

## Restructuring

Fluxys and majority shareholder Publigas adapted their structures into a new arrangement that takes into account recent changes in Belgian legislation regarding the independence of system operators vis-à-vis natural gas suppliers.

This new structure is required by the new Gas Act, as amended by the Act of 10 September 2009, since it compels Fluxys to divest itself of shareholdings in which a supply company or a company affiliated to such a company holds membership rights (which is the case for the Fluxys shareholdings in BBL, Interconnector and C4Gas).

Within the new structure, Publigas set up Fluxys G (initially Fluxys Holding), a wholly-owned subsidiary into which Publigas incorporated its stake in Fluxys SA. Fluxys G also took over the shareholdings that Fluxys SA held in companies with non-regulated activities in Belgium and in companies active abroad, namely:

### Fluxys G

- Acquisition of the stake in Fluxys Europe BV, which includes the shareholdings in Fluxys Deutschland, BBL and Interconnector (the latter two companies both operate pipelines between mainland Europe and the UK),
- Acquisition of the stake in Fluxys Finance SA, in which the management of Fluxys G's cash funds and financing is centralised.

### Fluxys Europe BV

- Acquisition of shareholdings in Huberator SA (operator of the Zeebrugge Hub spot market), Gas Management Services Ltd (provider of operational and software support services for natural gas companies active on transmission grids in northwest Europe), APX-Endex Holding BV (group of international natural gas and electricity exchanges in the Netherlands, the UK and Belgium) and C4Gas SAS (company set up with Gaz de France and National Grid for purchasing gas equipment).

The above transfers are also driven by the desire to clearly separate activities subject to regulation in Belgium, or linked to it, from the rest.

In the new structure, Fluxys SA remains the arm for regulated activities in Belgium, namely natural gas transmission, natural gas storage and, through its subsidiary Fluxys LNG, terminalling of liquefied natural gas. Furthermore, the reinsurance company Flux Re, the company Guimard and Fluxys & Co remain subsidiaries of Fluxys SA.

### Assessment by the committee of independent directors

In accordance with Article 524 of the Belgian Company Code on transactions between related companies, Fluxys SA set up a committee of three independent directors to give a reasoned opinion on the proposed restructuring. The committee examined the financial impact of the operation and found that the restructuring was not such as to cause the company any negative impact that would be wrongful in the light of the company's policy.

Accordingly, the committee submitted a favourable assessment to the Board of Directors.

### Transfer conditions

Following a decision by its Board of Directors on 30 June 2010, Fluxys SA sold the above-mentioned shareholdings on 30 September 2010 for approximately €323 million and booked a capital gain of €122 million in the consolidated income for the financial year.

The incomes of the transferred companies are included in the consolidated financial statements of Fluxys SA until 30 September 2010, the date on which these companies left the scope of consolidation. The contribution of these companies to the Fluxys group's profit from operations was €21 million during the nine months that they were consolidated.

### Interim dividend

Fluxys SA paid an interim dividend of €160 million to ensure that Fluxys shareholders benefited from the gain resulting from this restructuring.

## Fully consolidated companies

| Name of the subsidiary | Registered office | Company number | % ownership | Core business | Currency | Closing date |
|---|---|---|---|---|---|---|
| FLUXYS LNG SA | Rue Guimard 4<br>B - 1040 Brussels | 0426 047 853 | 100.00% | LNG terminalling | EUR | 31 December |
| FLUX RE SA | Rue de Merl 74<br>L - 2146 Luxembourg | - | 100.00% | Reinsurance company | EUR | 31 December |
| FLUXYS & Co SA | Avenue des Arts 31<br>B- 1040 Brussels | 0464 255 658 | 100.00% | LNG ship | EUR | 31 December |
| GUIMARD SA | Rue Guimard 4<br>B - 1040 Brussels | 0465 385 016 | 100.00% (1) | Real estate | EUR | 30 June |
| HUBERATOR SA | Rue Guimard 4<br>B - 1040 Brussels | 0466 874 361 | 90.00% (2) | Gas hub | EUR | 31 December |
| GMSL Ltd | Clarendon Road<br>GB - Cambridge CB2 2BH | - | 100.00% (2) | Services | GBP | 31 December |
| FLUXYS EUROPE BV | Schouwburgplein 30/34<br>NL - 3012CL Rotterdam | - | 100.00% (2) | International activities and non-regulated activities in Belgium | EUR | 31 December |
| FLUXYS BBL BV | Schouwburgplein 30/34<br>NL - 3012CL Rotterdam | - | 100.00% (2) | Holding company | EUR | 31 December |
| FLUXYS FINANCE SA | Rue Guimard 4<br>B - 1040 Brussels | 0821 382 439 | 100.00% (2) | Financial services | EUR | 31 December |
| FLUXYS DEUTSCHLAND GmbH | Sachsenring 69<br>D - 50677 Cologne | - | 100.00% (3) | Holding company | EUR | 31 December |

*(1) from 31 March 2010*
*(2) until 30 September 2010*
*(3) from July 2010 until 30 September 2010*

| Entities consolidated under the proportionate consolidation method | | | | | | |
|---|---|---|---|---|---|---|
| Name of the joint venture | Registered office | Company number | % ownership | Core business | Currency | Closing date |
| BBL Company VOF | Concourslaan 17<br>NL - 9700AE Groningen | - | 20.00%<br>(1) | Gas transmission | EUR | 31 December |

| Special partnership | | | | | | |
|---|---|---|---|---|---|---|
| Name of the special partnership | Registered office | Company number | % integration | Core business | Currency | Closing date |
| PR BW Gas / Fluxys DA | Norway | - | 49.00% | LNG ship | USD | 31 December |

*(1) until 30 September 2010*

| Details regarding joint ventures included in the group | In thousands of € | |
|---|---|---|
| | 30-09-2010 | 31-12-2009 |
| 100% | BBL Company VOF | BBL Company VOF |
| Non-current assets | 498,306 | 495,887 |
| Current assets | 10,960 | 16,944 |
| Non-current liabilities | 0 | 0 |
| Current liabilities | 10,836 | 18,064 |
| | | |
| Revenue | 93,743 | 124,452 |
| Operating expenses | -30,556 | -52,680 |
| Net financial income | -26 | 263 |
| Income tax expense | -16,106 * | -18,369 * |
| Net profit / loss for the period | 47,055 | 53,666 |

**Main non-consolidated entities**

| Name of the entity | Registered office | % ownership | Core business |
|---|---|---|---|
| Interconnector (UK) Ltd | Vine Street 41<br>UK - London EC3N 2AA | 15%<br>(1) | Gas transmission |
| APX-Endex Holding BV | World Trade Center<br>Strawinskylaan 729<br>NL - 1077 XX Amsterdam | 3.07%<br>(1) | Services |

** fiscally transparent company: taxes are borne by the partners*

*(1) until 30 September 2010*

## Note 4. Revenue

Analysis of revenue by business segment:

| Revenue under IFRS | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Transmission in Belgium | 4.1 | 410,526 | 479,880 | -69,354 |
| Storage in Belgium | 4.1 | 90,932 | 44,153 | 46,779 |
| Terminalling in Belgium | 4.1 | 93,060 | 93,516 | -456 |
| Other revenue | 4.2 | 63,197 | 70,481 | -7,284 |
| **Total** | | **657,715** | **688,030** | **-30,315** |

Revenue in the fiscal year 2010 amounted to €657,715 thousand, a decrease of €30,315 thousand compared with €688,030 thousand in the fiscal year 2009.

Transmission, storage and terminalling services in Belgium are subject to the Gas Act. The revenue from these services arose from tariff decisions taken by CREG on 22 December 2009.

This revenue aims to ensure a sufficient return on capital invested and to cover the operating charges related to these services as well as depreciation and amortisation and the non-depreciated portion in the tariffs within the decommissioned Regulated Asset Base. However, recovery of the latter is limited to the amount of the investments during the fiscal year.

4.1. Revenue from transmission activities was down on 2009. As a reminder, the new multi-annual natural gas transmission and storage tariffs have been in place for all grid users since 1 January 2010. These tariffs are significantly lower than those applied in 2009, which explains the change in revenue from transmission activities.

Revenue from storage activities rose on account of a non-recurring item, namely the decision to close the peak-shaving plant at Dudzele. Pursuant to the tariff legislation, revenue from storage activities was supplemented by the decommissioning costs as well as the non-depreciated portion in the tariffs within the Regulated Asset Base corresponding to the decommissioned facilities. In return, a regulatory asset was booked for an equivalent amount (see Note 18).

Revenue from LNG terminalling remained at a similar level to that of 2009.

4.2 Other revenue comprises income from the companies Fluxys Europe, Huberator and GMSL until 30 September 2010. This relates to revenue from the Zeebrugge gas hub, gas flow monitoring services on behalf of third parties and revenue generated by the BBL pipeline between Balgzand in the Netherlands and Bacton in the UK. The other revenue relates mainly to work for third parties (cathodic protection, etc.), the provision of facilities and our interest in the LNG tanker.

The decrease in other revenue of €7,284 thousand is due mainly to the aforementioned changes in the consolidation scope.

## Note 5. Other operating income

| Other operating income | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Other operating income | 5.1 | 11,488 | 8,360 | 3,128 |

Other operating income mainly comprises various recoveries from insurance companies and other debtors and income earned from making company property or personnel available to third parties.

5.1. The change in other operating income is mainly due to income from services carried out for third parties and the insurance compensation received for reimbursement of claims.

# Note 6. Operating expenses

| Operating expenses excluding net amortisation, depreciation and provisions | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Consumables, merchandise and supplies used | 6.1 | -34,262 | -30,332 | -3,930 |
| Miscellaneous goods and services | 6.2 | -144,091 | -159,562 | 15,471 |
| Employee expenses | 6.3 | -119,881 | -114,615 | -5,266 |
| Other operating expenses | 6.4 | -39,165 | -9,514 | -29,651 |
| **Total operating expenses** | | **-337,399** | **-314,023** | **-23,376** |
| Of which costs related to lease agreements | | -13,409 | -13,252 | -157 |

## 6.1. Consumables, merchandise and supplies used

Operating expenses are incurred in relation to purchases of gas necessary for balancing activities on the gas network as well as the gas consumed by the group, particularly in the compressor stations.

Operating expenses also include costs for transport material taken out of inventory for maintenance and repair projects and costs for work carried out on behalf of third parties (including cathodic protection).

The change observed is mainly due to the costs involved in work for third parties and equipment taken out of stock for maintenance and repair projects.

## 6.2. Miscellaneous goods and services

Miscellaneous goods and services comprise purchase of equipment, rent and rental charges, maintenance and repair expenses, goods and services supplied to the company, third party remuneration, royalties and contributions, non-personnel related insurance costs, transport and travel expenses, telecommunication costs, publication and information costs and, finally, temporary and support staff expenses.

Miscellaneous goods and services fell by €15,471 thousand in 2010. The bulk of this decline related to costs associated with reduced consumption of nitrogen when operating gas transformers (-€1.6 million), costs associated with replacing equipment and purchasing backup equipment (-€3.2 million), external assistance expenses and maintenance costs (-€8.5 million).

The remuneration paid to Deloitte in its capacity as the group's statutory auditor totalled €172,495. In addition, Deloitte performed other tasks for which it was paid a total of €47,769.

### 6.3. Employee expenses

The group's average headcount rose from 1,121 in 2009 to 1,136 in 2010, an increase of 15 units. In FTE (full-time equivalents), the average headcount in 2010 was 1,114.2 compared to 1,099.5 in 2009.

Employee expenses increased by €5,266 thousand due to an increase in the headcount (excluding that of GMSL, which has left the scope of consolidation), the cost of contributions to pension funds and changes in salaries, mainly as a result of inflation.

## Workforce

| | Fiscal year | | Previous fiscal year | |
|---|---|---|---|---|
| | Total number of staff | Total in FTE | Total number of staff | Total in FTE |
| **Average headcount** | **1,136** | **1,114.2** | **1,121** | **1,099.5** |
| **Fluxys** | **1,051** | **1,030.3** | **1,028** | **1,008.5** |
| Executives | 320 | 318.1 | 307 | 305.1 |
| Employees | 731 | 712.2 | 721 | 703.4 |
| **Fluxys LNG** | **39** | **38.2** | **36** | **35.2** |
| Executives | 2 | 2.0 | 2 | 2.0 |
| Employees | 37 | 36.2 | 34 | 33.2 |
| **GMSL** | **45** | **45.2** | **56** | **55.3** |
| Executives | 3 | 3.0 | 4 | 4.0 |
| Employees | 42 | 42.2 | 52 | 51.3 |
| **Flux Re** | **1** | **0.5** | **1** | **0.5** |
| Executives | 0 | 0.0 | 0 | 0.0 |
| Employees | 1 | 0.5 | 1 | 0.5 |

| | | | | |
|---|---|---|---|---|
| **Headcount at balance sheet date** | **1,090** | **1,069.1** | **1,154** | **1,131.7** |
| **Fluxys** | **1,046** | **1,026.0** | **1,059** | **1,038.1** |
| Executives | 318 | 315.8 | 319 | 316.8 |
| Employees | 728 | 710.2 | 740 | 721.3 |
| **Fluxys LNG** | **43** | **42.6** | **36** | **35.6** |
| Executives | 2 | 2.0 | 2 | 2.0 |
| Employees | 41 | 40.6 | 34 | 33.6 |
| **GMSL** | **0** | **0.0** | **58** | **57.5** |
| Executives | - | - | 4 | 4.0 |
| Employees | - | - | 54 | 53.5 |
| **Flux Re** | **1** | **0.5** | **1** | **0.5** |
| Executives | 0 | 0.0 | 0 | 0.0 |
| Employees | 1 | 0.5 | 1 | 0.5 |

### 6.4. Other operating expenses

Other operating expenses include property taxes, local taxes, and losses on disposal or abandonment of PPE. The last item represented an expense of €32,945 thousand in 2010, compared to €4,173 thousand in 2009.

The increase in these expenses is due to the loss resulting from the shutdown of the peak-shaving facilities in Dudzele (see Notes 4 and 18).

| Net depreciation, amortisation, impairment losses and provisions | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| **Depreciation and amortisation** | 6.5 | **-115,865** | **-122,830** | **6,965** |
| Intangible assets | | -8,843 | -17,867 | 9,024 |
| Property, plant and equipment | | -107,022 | -104,963 | -2,059 |
| | | | | |
| **Impairment losses** | 6.6 | **1,998** | **-115** | **2,113** |
| Inventories | | 2,021 | -106 | 2,127 |
| Trade receivables | | -23 | -9 | -14 |
| | | | | |
| **Provisions for liabilities and charges** | 6.7 | **-243** | **-77,468** | **77,225** |
| | | | | |
| **Total depreciation, amortisation, impairment losses and provisions** | | **-114,110** | **-200,413** | **86,303** |

## 6.5. Depreciation and amortisation

The intangible assets resulting from the Distrigas & C° business combination which remain on the asset side of the balance sheet have an indeterminate useful life and therefore were not amortised in 2010. It should be remembered that all transmission services have been charged at the regulated tariff since 1 January 2010.

The depreciation of tangible assets increased due to the commissioning of new investments. This increase was mitigated by the departure of BBL VOF and GMSL from the consolidation scope.

## 6.6. Impairment losses

The impairment losses on gas inventories were reversed in 2010 due to the upward trend in gas prices.

## 6.7. Provisions for liabilities and charges

No new provisions for regulatory risks were set aside in 2010 since new tariffs applying to all users were agreed by CREG and have been in force for natural gas transmission and storage since 1 January 2010.

The group's provisions as well as the 2010 changes are analysed in detail in Notes 26 Provisions and 27 Provisions for employee benefits.

## Note 7a. Gain / loss on disposal of financial assets

| Gain / loss on disposal of financial assets | | | In thousands of € |
|---|---|---|---|
| | 31-12-2010 | 31-12-2009 | Change |
| Gain on disposal of shareholding in Transfin | | 198 | -198 |
| Gain on disposal of Fluxys Europe and Fluxys Finance, shareholdings transferred to Fluxys G | 68,407 | | 68,407 |
| Gain on disposal of Huberator and GMSL, shareholdings transferred to Fluxys Europe | 53,536 | | 53,536 |
| **Total** | **121,943** | **198** | **121,745** |

Fluxys posted consolidated profit of €121,943 thousand on the financial assets disposed of in connection with the restructuring of the group (see Note 3).

## Note 7b. Financial income

| Financial income | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Dividends from non-consolidated companies | 7b.1 | 6,266 | 148 | 6,118 |
| Financial income from lease contracts | 7b.2 | 342 | 595 | -253 |
| Interest income on marketable securities, cash and cash equivalents and interest rate swaps | 7b.3 | 6,138 | 4,988 | 1,150 |
| Expected return of pension plan assets | 7b.4 | 5,361 | 5,652 | -291 |
| Other financial income | | 471 | 220 | 251 |
| **Total** | | **18,578** | **11,603** | **6,975** |

7b.1. The increase in dividends from non-consolidated companies was due to the shareholding acquired in Interconnector (UK) Ltd, the first dividends from which were collected in 2010.
N.B. this shareholding subsequently left the scope of consolidation following the restructuring of the group in late 2010.

7b.2. Financial income from lease contracts related to the Interconnector Zeebrugge Terminal (IZT) installations.

7b.3. The rise in interest income on marketable securities, cash and cash equivalents is the result of an increase in these assets (up €279.43 million), partially offset by a decrease in the average return (down 57 basis points) on cash surpluses. The decrease in the return reflects changes in market interest rates from 1 January to 31 December 2010.

The significant increase in the average volume invested is essentially due to the restructuring of the group, under which the group collected €322.6 million for the sale of its subsidiaries Fluxys Europe, Huberator and GMSL and shareholdings in APX-Endex Holding and C4Gas. However, this income was partially counterbalanced by Fluxys SA's declaration of interim dividends amounting to €160.2 million in December 2010.

7b.4. See Note 27.

## Note 8. Financial expenses and change in the fair value of financial instruments

| Financial expenses | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Borrowing interest costs | 8.1 | -44,259 | -31,506 | -12,753 |
| Unwinding of discounts | 8.2 | -8,277 | -8,654 | 377 |
| Other financial expenses | | -192 | -394 | 202 |
| **Total** | | **-52,728** | **-40,554** | **-12,174** |

8.1. Borrowing interest costs primarily include interest on the Troll and RTR finance lease contracts, the loans from the European Investment Bank, the long-term debenture, regulatory liabilities and short- and medium-term financing facilities put in place to cover the group's financial needs.

The increase in borrowing interest costs is due mainly to the recording of a total annual charge on loans issued or taken out in 2009.

8.2. The unwinding of discounted amounts has fallen slightly. This change is analyzed in Notes 26 Provisions and 27 Provisions for employee benefits.

| Change in value of financial instruments | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Use and change in the fair value of financial instruments | 8.3 | 828 | 668 | 160 |
| **Total** | | **828** | **668** | **160** |

8.3. This item shows the cost incurred in connection with the use – and change in the fair value – of instruments used for hedging the group's currency risk (USD) for its LNG carrier revenue, call/put options relating to the company Fluxys & Co and instruments for hedging interest rate risks (Interest Rate Swaps) used as part of the RTR finance lease contract. It also includes an impairment on the shareholding in Interconnector (UK) Ltd.

The cost for the use of these instruments was €2,099 thousand for the fiscal year 2010 while their value increased by €2,927 thousand between 31 December 2009 and 31 December 2010.

# Note 9. Income tax expense

Income tax expense is analysed as follows:

| Income tax expense | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Current tax | | -80,303 | -68,701 | -11,602 |
| Deferred tax | | 21,678 | 19,989 | 1,689 |
| **Total** | 9.1 | **-58,625** | **-48,712** | **-9,913** |

9.1. Income tax expense increased by €9,913 thousand compared with 2009. This change is explained as follows:

| Current tax | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| **Income tax on the profit of the period** | | **-80,568** | **-70,348** | **-10,220** |
| Taxes and withholding taxes due or paid | | -70,888 | -70,214 | -674 |
| Excess of payment of taxes and withholding taxes included in assets | | 228 | 1,800 | -1,572 |
| Estimated additional tax included in liabilities | | -9,908 | -1,934 | -7,974 |
| **Adjustments to previous years' taxes** | | **265** | **1,647** | **-1,382** |
| **Total** | 9.2 | **-80,303** | **-68,701** | **-11,602** |

9.2. Current income tax increased by €11,602 thousand compared with the previous year. This change was mainly due to the increase in profit before taxes excluding gains on the disposal of stakes, which were not taxable.

| Deferred tax | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| **Relating to origination or reversal of temporary differences** | | **21,678** | **19,954** | **1,724** |
| Differences arising from the valuation of property, plant and equipment | 9.3 | 27,415 | 22,249 | 5,166 |
| Differences arising from provisions | 9.3 | -3,603 | 2 | -3,605 |
| Others | 9.3 | -2,134 | -2,297 | 163 |
| | | | | |
| **Relating to tax rate changes or to new taxes** | | **0** | **35** | **-35** |
| | | | | |
| **Relating to changes in accounting policies and errors** | | **0** | **0** | **0** |
| | | | | |
| **Relating to changes in fiscal status of enterprise or shareholders** | | **0** | **0** | **0** |
| | | | | |
| **Total** | | **21,678** | **19,989** | **1,689** |

9.3. Deferred tax is primarily influenced by the difference between the carrying amount and the tax base of property, plant and equipment.

In 2010, movements in provisions accounted for under local standards but not recognised under IFRS gave rise to deferred tax.

The item 'Others' relates to the 5% tax on the dividends from subsidiaries and the change in value of financial instruments.

| Reconciliation of expected income tax rate and effective average income tax rate | | | In thousands of € |
|---|---|---|---|
| | 31-12-2010 | 31-12-2009 | Change |
| **Expected income tax based on applicable tax rate – Fiscal year** | **-104,116** | **-52,300** | **-51,816** |
| Profit before taxes | 306,315 | 153,869 | 152,446 |
| Applicable tax rate | 33.99% | 33.99% | 0.00% |
| | | | |
| **Reconciling items** | **45,226** | **1,941** | **43,285** |
| Income tax rate differences between jurisdictions | 1,363 | 1,699 | -336 |
| Tax rate changes | 0 | 35 | -35 |
| Tax-exempt income | 43,530 | -1,863 | 45,393 |
| Non-deductible expenses | -1,869 | -1,455 | -414 |
| Taxable dividend income | -1,671 | -885 | -786 |
| Deductible notional interest cost | 3,923 | 4,376 | -453 |
| Others | -50 | 34 | -84 |
| | | | |
| **Income tax as per effective average tax rate – Fiscal year** | **-58,890** | **-50,359** | **-8,531** |
| Profit before taxes | 306,315 | 153,869 | 152,446 |
| Average effective tax rate | 19.23% | 32.73% | -13.50% |
| | | | |
| **Taxes on tax-exempt reserves** | **0** | **0** | **0** |
| | | | |
| **Adjustments to previous years' taxes** | **265** | **1,647** | **-1,382** |
| | | | |
| **Total income tax expense** | **-58,625** | **-48,712** | **-9,913** |

The average effective tax rate for 2010 amounted to 19.23% compared with 32.73% the previous year. This decrease in the average effective rate was primarily due to the gains on the disposal of stakes, which were not taxable.

## Note 10. Net profit for the period

| Net profit for the period | | | In thousands of € |
|---|---|---|---|
| | 31-12-2010 | 31-12-2009 | Change |
| Non-controlling interests | 335 | 1,915 | -1,580 |
| Fluxys share | 247,355 | 103,242 | 144,113 |
| **Total net profit for the period** | **247,690** | **105,157** | **142,533** |

The consolidated net profit for the fiscal year amounted to €247,690 thousand, an increase of €142,533 thousand compared with 2009.

This increase is mainly due to the following non-recurring items:
- the group's disposal of the stakes generating a capital gain of €121,943 thousand (see Notes 3 and 7a), and
- the net profit of €5,658 thousand recorded following the closure of the peak-shaving plant at Dudzele, the non-depreciated portion in the tariffs within the corresponding Regulated Asset Base having been recognised as regulatory assets (see Note 18).

## Note 11. Earnings per share

| Numerator (in thousands of €) | 31-12-2010 | 31-12-2009 |
|---|---|---|
| **Net profit from continuing operations attributable to equity holders of the parent** | **247,355** | **103,242** |
| Net profit | 247,355 | 103,242 |
| Impact of dilutive instruments | | |
| **Diluted net profit from continuing operations attributable to equity holders of the parent** | **247,355** | **103,242** |
| | | |
| **Net profit / loss from discontinued operations attributable to equity holders of the parent** | **0** | **0** |
| Net profit | 0 | 0 |
| Impact of dilutive instruments | 0 | 0 |
| **Diluted net profit from discontinued operations attributable to equity holders of the parent** | **0** | **0** |
| | | |
| **Net profit attributable to equity holders of the parent** | **247,355** | **103,242** |
| Net profit | 247,355 | 103,242 |
| Impact of dilutive instruments | 0 | 0 |
| **Diluted net profit attributable to equity holders of the parent** | **247,355** | **103,242** |

| Denominator (number of shares) | 31-12-2010 | 31-12-2009 |
|---|---|---|
| **Average number of outstanding shares** | **702,636** | **702,636** |
| Impact of dilutive instruments | 0 | 0 |
| **Diluted average number of outstanding shares** | **702,636** | **702,636** |

| Earnings per share (in €) | 31-12-2010 | 31-12-2009 |
|---|---|---|
| Basic earnings per share from continuing operations attributable to equity holders of the parent | 352.0386 | 146.9353 |
| Diluted earnings per share from continuing operations attributable to equity holders of the parent | 352.0386 | 146.9353 |
| Basic earnings per share from discontinued operations attributable to equity holders of the parent | 0.0000 | 0.0000 |
| Diluted earnings per share from discontinued operations attributable to equity holders of the parent | 0.0000 | 0.0000 |
| Basic earnings per share attributable to equity holders of the parent | 352.0386 | 146.9353 |
| Diluted earnings per share attributable to equity holders of the parent | 352.0386 | 146.9353 |

## Note 12. Property, plant and equipment

| Movements in property, plant and equipment | Land | Buildings | Gas transmission networks* | Gas storage facilities* |
|---|---|---|---|---|
| Gross carrying amount | | | | |
| At 31-12-2008 | 27,512 | 102,108 | 2,567,166 | 324,006 |
| Additions | 1,861 | 945 | 27,179 | 7,757 |
| Acquisitions through business combinations | 0 | 0 | 0 | 0 |
| Disposals and retirements | -49 | 0 | -7,400 | 0 |
| Internal transfers | 309 | 1,659 | 81,234 | 290 |
| Translation adjustments | 0 | 0 | 0 | 0 |
| At 31-12-2009 | 29,633 | 104,712 | 2,668,179 | 332,053 |
| Additions | 1,614 | 1,573 | 37,150 | 7,867 |
| Government grants | 0 | 0 | 0 | 0 |
| Acquisitions through business combinations | 6,282 | 20,957 | 0 | 0 |
| Disposals and retirements | -45 | -4,935 | -4,635 | -73,981 |
| Internal transfers | 0 | 5,668 | 40,158 | -12,246 |
| Changes in consolidation scope | -951 | -1,000 | 0 | 0 |
| Translation adjustments | 0 | 0 | 0 | 0 |
| At 31-12-2010 | 36,533 | 126,975 | 2,740,852 | 253,693 |

** subject to the Gas Act*

| | | | | | | In thousands of € |
|---|---|---|---|---|---|---|
| LNG terminal * | Ship | Other installations and machinery | Furniture, equipment and vehicles | Other property, plant and equipment | Assets under construction and instalments paid | Total |
| | | | | | | |
| | | | | | | |
| 995,016 | 100,225 | 150,234 | 34,330 | 309 | 152,715 | 4,453,621 |
| | | | | | | |
| 991 | 142 | 1,279 | 5,137 | 0 | 181,357 | 226,648 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | -2,565 | 0 | -142 | -10,156 |
| 77 | 0 | 0 | 0 | -309 | -83,260 | 0 |
| 0 | 0 | 29 | 0 | 0 | 0 | 29 |
| | | | | | | |
| 996,084 | 100,367 | 151,542 | 36,902 | 0 | 250,670 | 4,670,142 |
| | | | | | | |
| 547 | 76 | 3,054 | 3,691 | 0 | 309,765 | 365,337 |
| 0 | 0 | 0 | 0 | 0 | -34,430 | -34,430 |
| 0 | 0 | 0 | 0 | 0 | 0 | 27,239 |
| -17 | 0 | -157 | -903 | 0 | -2,207 | -86,880 |
| 418 | 0 | 0 | 0 | 0 | -33,998 | 0 |
| 0 | 0 | -109,005 | 0 | 0 | 0 | -110,956 |
| 0 | 0 | 40 | 0 | 0 | 0 | 40 |
| | | | | | | |
| 997,032 | 100,443 | 45,474 | 39,690 | 0 | 489,800 | 4,830,492 |

## Movements in property, plant and equipment

| | Land | Buildings | Gas transmission networks* | Gas storage facilities* |
|---|---|---|---|---|
| **Depreciation and impairment losses** | | | | |
| **At 31-12-2008** | **0** | **-64,096** | **-1,316,927** | **-195,820** |
| Depreciation | 0 | -2,365 | -67,678 | -7,555 |
| Impairment losses | 0 | 0 | 0 | 0 |
| Acquisitions through business combinations | 0 | 0 | 0 | 0 |
| Disposals and retirements | 0 | 0 | 1,968 | 0 |
| Internal transfers | 0 | -370 | 64 | 0 |
| Translation adjustments | 0 | 0 | 0 | 0 |
| **At 31-12-2009** | **0** | **-66,831** | **-1,382,573** | **-203,375** |
| Depreciation | 0 | -2,262 | -72,588 | -5,969 |
| Impairment losses | 0 | 0 | 0 | 0 |
| Acquisitions through business combinations | 0 | 0 | 0 | 0 |
| Disposals and retirements | 0 | 4,546 | 3,661 | 44,655 |
| Internal transfers | 0 | 1,012 | -9,147 | 8,135 |
| Changes in consolidation scope | 0 | 193 | 0 | 0 |
| Translation adjustments | 0 | 0 | 0 | 0 |
| **At 31-12-2010** | **0** | **-63,342** | **-1,460,647** | **-156,554** |
| **Net carrying amount at 31-12-2010** | **36,533** | **63,633** | **1,280,205** | **97,139** |
| **Net carrying amount at 31-12-2009** | **29,633** | **37,881** | **1,285,606** | **128,678** |

** subject to the Gas Act*

| | | | | | | In thousands of € |
|---|---|---|---|---|---|---|
| LNG terminal* | Ship | Other installations and machinery | Furniture, equipment and vehicles | Other property, plant and equipment | Assets under construction and instalments paid | Total |
| | | | | | | |
| | | | | | | |
| **-580,204** | **-12,251** | **-51,558** | **-22,199** | **-306** | **0** | **-2,243,361** |
| | | | | | | |
| -19,105 | -2,557 | -3,224 | -2,479 | 0 | 0 | -104,963 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 2,565 | 0 | 0 | 4,533 |
| 0 | 0 | 0 | 0 | 306 | 0 | 0 |
| 0 | 0 | -21 | 0 | 0 | 0 | -21 |
| | | | | | | |
| **-599,309** | **-14,808** | **-54,803** | **-22,113** | **0** | **0** | **-2,343,812** |
| | | | | | | |
| -19,025 | -2,558 | -1,653 | -2,967 | 0 | 0 | -107,022 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | 0 | 0 | 335 | 0 | 0 | 53,199 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 11,487 | 0 | 0 | 0 | 11,680 |
| 0 | 0 | -32 | 0 | 0 | 0 | -32 |
| | | | | | | |
| **-618,332** | **-17,366** | **-45,001** | **-24,745** | **0** | **0** | **-2,385,987** |
| | | | | | | |
| **378,700** | **83,077** | **473** | **14,945** | **0** | **489,800** | **2,444,505** |
| **396,775** | **85,559** | **96,739** | **14,789** | **0** | **250,670** | **2,326,330** |

| Movements in property, plant and equipment | Land | Buildings | Gas transmission networks* | Gas storage facilities* |
|---|---|---|---|---|
| Net carrying amount at 31-12-2010, including : | 36,533 | 63,633 | 1,280,205 | 97,139 |
| | | | | |
| At cost | 36,533 | 63,633 | 1,280,205 | 97,139 |
| At revaluation | 0 | 0 | 0 | 0 |
| | | | | |
| Net carrying amount at 31-12-2010 of assets held under finance leases | 0 | 344 | 95,724 | 0 |
| | | | | |
| Supplementary information | | | | |
| | | | | |
| Net carrying amount of assets temporarily retired from active use | 110 | 0 | 0 | 0 |

** subject to the Gas Act*

'Property, plant and equipment' mainly comprises the group's transmission, storage (Loenhout) and terminalling (Zeebrugge LNG terminal) facilities as well as the interest held in an LNG ship.

In 2010, Fluxys group made investments of €392,576 thousand, of which the main items are the following:
- laying of transmission pipelines (€230,655 thousand, including €144,607 thousand for RTR2 infrastructure),
- compressor stations (€63,166 thousand),
- storage facilities at Loenhout (€45,389 thousand), and
- the acquisition of a neighbouring building to the Fluxys registered office.

In relation to investments that are currently in progress or planned, the group has commitments under Engineering, Procurement and Construction contracts amounting to €147.4 million at 31 December 2010.

During the fiscal year 2010, Fluxys obtained grants worth €34,430 thousand for the RTR2 and North-South investments. Retirements during the period mainly relate to decommissioning of the peak-shaving plant at Dudzele.

| | | | | | | In thousands of € |
|---|---|---|---|---|---|---|
| LNG terminal * | Ship | Other installations and machinery | Furniture, equipment and vehicles | Other property, plant and equipment | Assets under construction and instalments paid | Total |
| **378,700** | **83,077** | **473** | **14,945** | **0** | **489,800** | **2,444,505** |
| | | | | | | |
| 378,700 | 83,077 | 473 | 14,945 | 0 | 489,800 | 2,444,505 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| 0 | 0 | 0 | 288 | 0 | 0 | 96,356 |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 110 |

The depreciation charge for the period amounts to €107,022 thousand and reflects the rate at which the group expects to consume the economic benefits of the assets.

The assets that are used within the regulated market are depreciated over their useful life, as stated in point 8 of the accounting principles (Note 2), without taking into account a residual value, given the specificity of the sector's activities.

Other property, plant and equipment is depreciated over its useful life as estimated by the group, taking into account actual and potential contracts, and considering reasonable market assumptions, based on the principle of matching of revenues and costs. Given the specificities of the activities concerned, the residual value, if any, of the facilities in question has been ignored.

At the balance sheet date the group does not hold property, plant and equipment assets which have been pledged as security against liabilities.

The group emphasises that no indications existed at the balance sheet date that property, plant and equipment may have been impaired.

## Note 13. Intangible assets

| Movements in the carrying amount of intangible assets | | | | In thousands of € |
|---|---|---|---|---|
| | Application software | Balance of agreed Fluxys & Co consideration | $CO_2$ emission rights | Total |
| Gross carrying amount | | | | |
| | | | | |
| At 31-12-2008, of which: | 44,289 | 292,101 | 0 | 336,390 |
| Internally developed software | 36,296 | | | |
| Software purchased from third parties | 7,993 | | | |
| | | | | |
| Additions, of which : | 10,423 | | | 10,423 |
| Internally developed | 9,521 | | | |
| Purchased from third parties | 902 | | | |
| Acquisitions through business combinations | | | | 0 |
| Disposals and retirements | -624 | | | -624 |
| Translation adjustments | | | | 0 |
| Changes in consolidation scope | | | | 0 |
| Others | | | | 0 |
| | | | | |
| At 31-12-2009, of which: | 54,088 | 292,101 | 0 | 346,189 |
| Internally developed software | 45,817 | | | |
| Software purchased from third parties | 8,271 | | | |
| | | | | |
| Additions, of which: | 7,810 | | | 7,810 |
| Internally developed | 6,663 | | | |
| Purchased from third parties | 1,147 | | | |
| Acquisitions through business combinations | | | | 0 |
| Disposals and retirements | -7,291 | | | -7,291 |
| Translation adjustments | | | | 0 |
| Changes in consolidation scope | | | | 0 |
| Others | | | | 0 |
| | | | | |
| At 31-12-2010, of which: | 54,607 | 292,101 | 0 | 346,708 |
| Internally developed software | 45,518 | | | |
| Software purchased from third parties | 9,089 | | | |

| Movements in the carrying amount of intangible assets | | | | In thousands of € |
|---|---|---|---|---|
| | Application software | Balance of agreed Fluxys & Co consideration | $CO_2$ emission rights | Total |
| **Amortisation and impairment losses** | | | | |
| | | | | |
| **At 31-12-2008, of which:** | **-26,740** | **-5,436** | **0** | **-32,176** |
| Internally developed software | -20,668 | | | |
| Software purchased from third parties | -6,072 | | | |
| Amortisation | -8,173 | -9,694 | | -17,867 |
| Disposals and retirements | 339 | | | 339 |
| Translation adjustments | | | | 0 |
| Changes in consolidation scope | | | | 0 |
| Others | | | | 0 |
| | | | | |
| **At 31-12-2009, of which:** | **-34,574** | **-15,130** | **0** | **-49,704** |
| Internally developed software | -28,118 | | | |
| Software purchased from third parties | -6,456 | | | |
| Amortisation | -8,843 | | | -8,843 |
| Disposals and retirements | 7,192 | | | 7,192 |
| Translation adjustments | | | | 0 |
| Changes in consolidation scope | | | | 0 |
| Others | | | | 0 |
| | | | | |
| **At 31-12-2010, of which:** | **-36,225** | **-15,130** | **0** | **-51,355** |
| Internally developed software | -30,458 | | | |
| Software purchased from third parties | -5,767 | | | |

| Movements in the carrying amount of intangible assets | Application software | Balance of agreed Fluxys & Co consideration | $CO_2$ emission rights | Total |
|---|---|---|---|---|
| | | | | In thousands of € |
| Net carrying amount at 31-12-2009 | 19,514 | 276,971 | 0 | 296,485 |
| Internally developed software | 17,699 | | | |
| Software purchased from third parties | 1,815 | | | |
| Net carrying amount at 31-12-2010 | 18,382 | 276,971 | 0 | 295,353 |
| Internally developed software | 15,060 | | | |
| Software purchased from third parties | 3,322 | | | |

Intangible assets comprise the net carrying amount of application software and of emission rights and the balance of the agreed value of border-to-border transmission contracts purchased in 2008.

The application software included in intangible assets is investment software developed or purchased by the group. This software is amortised over 5 years on a straight-line basis. Major investments during the fiscal year concern software developed in relation to gas flow management and related administrative tools.

The balance, after allocation to property, plant and equipment and other receivables, of the agreed value paid for the acquisition of the border-to-border transmission activities of Distrigas & C° was recognised as an intangible asset. In the absence of legislative, regulatory and judiciary decisions, the final value of this asset has not been determined on the closing date of the present financial statements. The balance of the asset which remains in this section has an indeterminate useful life and therefore this asset was not depreciated in 2010. It should be remembered that all transmission services have been charged at the regulated tariff since 1 January 2010.

The gas transmission facilities in Belgium are included in the scheme for greenhouse gas emission allowance trading. Accordingly, Fluxys group was given free $CO_2$ emission rights amounting to 441,806 tonnes of $CO_2$ for the compression, storage, blending and terminalling activity sites in 2010. The value of the unused rights for the fiscal year 2010 amounted to €2,345 thousand, which corresponds to 168,741 tonnes of $CO_2$. In accordance with the accounting policies stated in Note 2, the unused emission rights granted free of charge have been recognised at nil value in intangible assets.

The group emphasises that there were no indications at the balance sheet date that intangible assets may have been impaired.

## Note 14. Goodwill

| Goodwill | In thousands of € | |
|---|---|---|
| | **31-12-2010** | **31-12-2009** |
| GMSL | 0 | 3,465 |
| **Total** | **0** | **3,465** |

| Movements in goodwill carrying amount | | | In thousands of € |
|---|---|---|---|
| | **Gross carrying amount** | **Accumulated impairment losses** | **Net carrying amount** |
| **At 31-12-2008 (restated)** | **3,230** | **0** | **3,230** |
| Translation adjustments | 235 | 0 | 235 |
| | | | |
| **At 31-12-2009** | **3,465** | **0** | **3,465** |
| Changes in consolidation scope | -3,465 | 0 | -3,465 |
| | | | |
| **At 31-12-2010** | **0** | **0** | **0** |

At 31 December 2009, the goodwill reported in the financial statements related to the acquisition in 2002 of 100% of the subsidiary GMSL.

Following the withdrawal of GMSL from the consolidation scope, goodwill no longer appears in the Fluxys group SA financial statements at 31 December 2010 (see Note 3).

## Note 15. Investments in associates

Fluxys group had no investments in associates at the balance sheet date.

## Note 16. Other financial assets

| Other financial assets | | | In thousands of € |
|---|---|---|---|
| | **Note** | **31-12-2010** | **31-12-2009** |
| Shares at cost | 16.1 | 0 | 84,218 |
| Other financial assets at cost | 16.2 | 39 | 24 |
| **Total** | | **39** | **84,242** |

| Movement in other financial assets – Shares at cost | | In thousands of € |
|---|---|---|
| | **31-12-2010** | **31-12-2009** |
| **Opening balance** | **84,218** | **2,983** |
| Gross amount | 84,249 | 3,014 |
| Uncalled amounts | -31 | -31 |
| Accumulated impairment losses | 0 | 0 |
| | | |
| Acquisitions | 38,967 | 81,237 |
| Disposals | -123,154 | -2 |
| Change in ownership percentage | 0 | 0 |
| Translation adjustments | 0 | 0 |
| Capital increases | 0 | 0 |
| Other | -31 | 0 |
| | | |
| **Closing balance** | **0** | **84,218** |
| Gross amount | 0 | 84,249 |
| Uncalled amounts | 0 | -31 |
| Accumulated impairment losses | 0 | 0 |

16.1. The stakes held in Interconnector (UK) Ltd (15% after the acquisition of 5% in the first half of 2010), APX-Endex Holding BV (3.07%) and C4GAS SAS (5%) were disposed of following the restructuring of the group that took place in September 2010 (see Note 3).

The company Belgian Pipe Control SA (25%) was liquidated on 16-12-2010.

| Movement in other financial assets – other assets at cost | | In thousands of € |
|---|---|---|
| | 31-12-2010 | 31-12-2009 |
| **Opening balance** | **24** | **6** |
| Gross amount | 24 | 6 |
| Accumulated impairment losses | 0 | 0 |
| | | |
| Additions | 15 | 18 |
| Repayments | 0 | 0 |
| Translation adjustments | 0 | 0 |
| Others | 0 | 0 |
| | | |
| **Closing balance** | **39** | **24** |
| Gross amount | 39 | 24 |
| Accumulated impairment losses | 0 | 0 |

16.2. Other assets at cost consist of VAT and rental deposits paid.

## Note 17. Finance lease receivables

| Finance lease receivables | | | In thousands of € |
|---|---|---|---|
| | 31-12-2010 | 31-12-2009 | Change |
| Non-current receivables | 27,370 | 29,088 | -1,718 |
| Current receivables | 1,718 | 1,395 | 323 |
| **Total** | **29,088** | **30,483** | **-1,395** |

Finance lease receivables include the contract relating to the Interconnector Zeebrugge Terminal (IZT): in accordance with IAS 17, the lease contract signed with IZT SCRL for IZT has been accounted for as a finance lease. The contract, which took effect in 1998, has a minimum term of 20 years, at the end of which the lessee can exercise a purchase option. A variable interest rate (based on Euribor) is applied to this receivable.

| Maturity of finance lease receivables at 31-12-2010 | | | | In thousands of € |
|---|---|---|---|---|
| | Up to one year | Between one and five years | Over five years | Total |
| Finance lease receivables | 1,718 | 10,728 | 16,642 | 29,088 |
| **Total** | **1,718** | **10,728** | **16,642** | **29,088** |
| | | | | |
| **Finance lease receivables :** | | | | |
| Present value of minimum lease payments at market rate | 2,117 | 12,112 | 17,269 | 31,498 |
| Total minimum lease payments | 2,117 | 12,112 | 17,269 | 31,498 |
| Interest | 399 | 1,384 | 627 | 2,410 |

| Maturity of finance lease receivables at 31-12-2009 | | | | In thousands of € |
|---|---|---|---|---|
| | Up to one year | Between one and five years | Over five years | Total |
| Finance lease receivables | 1,395 | 9,113 | 19,975 | 30,483 |
| **Total** | **1,395** | **9,113** | **19,975** | **30,483** |
| | | | | |
| **Finance lease receivables :** | | | | |
| Present value of minimum lease payments at market rate | 1,739 | 10,352 | 20,794 | 32,885 |
| Total minimum lease payments | 1,739 | 10,352 | 20,794 | 32,885 |
| Interest | 344 | 1,239 | 819 | 2,402 |

The total value of minimum lease payments corresponds to the best estimate, at the balance sheet date, of the lease payments to be received regardless of whether they relate to the capital to be received (finance lease receivables), interest to be received (interest), or the purchase option (finance lease receivables). These payments are discounted at market rate so as to obtain the present value of the minimum lease payments.

## Note 18. Non-current loans and receivables

| Non-current loans and receivables | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Regulatory assets | 18.1 | 50,583 | 0 | 50,583 |
| Non-current loans | 18.2 | 9,616 | 0 | 9,616 |
| **Total** | | **60,199** | **0** | **60,199** |

18.1. This item includes the regulatory receivable that arose in 2010 following the closure of the peak-shaving plant at Dudzele. Pursuant to the tariff legislation, revenue from storage activities was supplemented by the decommissioning costs as well as the non-depreciated portion in the tariffs within the Regulated Asset Base corresponding to the decommissioned facilities. In return, a regulatory asset was booked for an equivalent amount. This asset bears interest at the average Euribor 1 year rate.

18.2. This item includes a loan of more than one year that was granted to Fluxys Finance.

| Maturity of non-current loans and receivables at 31-12-2010 | | | In thousands of € |
|---|---|---|---|
| | Between one and five years | Over five years | Total |
| Regulatory assets | 0 | 50,583 | 50,583 |
| Non-current loans | 9,616 | 0 | 9,616 |
| **Total** | **9,616** | **50,583** | **60,199** |

## Note 19. Inventories

| Carrying amount of inventories | | | In thousands of € |
|---|---|---|---|
| | 31-12-2010 | 31-12-2009 | Change |
| **Supplies and consumables** | **45,573** | **58,389** | **-12,816** |
| Gross carrying amount | 52,400 | 64,957 | -12,557 |
| Impairment | -6,827 | -6,568 | -259 |
| **Goods held for resale** | **6,128** | **9,397** | **-3,269** |
| Gross carrying amount | 6,128 | 11,677 | -5,549 |
| Impairment | 0 | -2,280 | 2,280 |
| **Contracts in progress** | **201** | **65** | **136** |
| Gross carrying amount | 201 | 65 | 136 |
| Impairment | 0 | 0 | 0 |
| **Total** | **51,902** | **67,851** | **-15,949** |

The inventory of supplies and consumables decreased by €12,816 thousand over the year to 31 December 2010, mainly as a result of the use of materials intended for network construction, maintenance and repair activities.

The change in natural gas inventories (down €3,269 thousand) is due to, first, a decrease in the stored volume and, second, the reversal of impairment losses recorded on these inventories as a result of the rise in the price of natural gas.

| Inventories – Impact of movements on net profit | | | In thousands of € |
|---|---|---|---|
| | 31-12-2010 | 31-12-2009 | Change |
| Inventories – purchased or used | -17,970 | -24 | -17,946 |
| Impairment | 2,021 | -106 | 2,127 |
| **Total** | **-15,949** | **-130** | **-15,819** |

## Note 20. Current tax receivable

| Current tax receivable | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Recoverable income taxes | | 2,525 | 4,838 | -2,313 |
| **Total** | 20.1 | **2,525** | **4,838** | **-2,313** |

20.1. Current tax receivable includes recoverable income taxes. The main reason for the decrease is the reimbursement of the excess tax prepayments.

## Note 21. Trade and other receivables

| Trade and other receivables | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Net trade receivables | 21.1 | 16,975 | 21,369 | -4,394 |
| Other receivables | 21.2 | 43,023 | 43,142 | -119 |
| **Total** | | **59,998** | **64,511** | **-4,513** |

21.1 Fluxys group reduces its exposure to credit risk, both in terms of default and concentration of risk, by requiring short payment terms from its customers (payment within 30 days), a strict policy for the follow-up of trade receivables, and a systematic evaluation of its counterparties' financial position.

The change in this item is due to payment in late December 2010 of invoices, whereas invoices for the previous fiscal year had been paid in January.

Trade receivables can be broken down as follows according to their ageing:

| Net trade receivables according to ageing | | | In thousands of € |
|---|---|---|---|
| | 31-12-2010 | 31-12-2009 | Change |
| Assets < 3 months | 14,913 | 20,988 | -6,075 |
| Assets 3 - 6 months | 0 | 156 | -156 |
| Assets > 6 months | 0 | 0 | 0 |
| Assets in litigation or doubtful | 2,062 | 225 | 1,837 |
| **Total** | **16,975** | **21,369** | **-4,394** |

'Assets in litigation' are mainly outstanding receivables on grid users who have appealed to the Brussels Court of Appeal against the CREG decision regarding 2010 tariffs. These assets in litigation were not subject to impairment in 2010.

21.2 In addition to various receivables such as recoverable withholding taxes and VAT, 'other receivables' includes an amount to recover from Transfin / Distrigas arising from the business combination with Distrigas & C°.

## Note 22. Short-term investments, cash and cash equivalents

Short-term investments are investments with a maturity of more than three months in bonds, commercial paper and bank deposits.

Cash and cash equivalents are mainly euro investments in commercial paper that mature within a maximum of three months after the date of acquisition, deposits made with Fluxys Finance (cash pooling), term deposits at financial institutions, bank balances and cash in hand.

| Short-term investments, cash and cash equivalents | | | In thousands of € |
|---|---|---|---|
| | 31-12-2010 | 31-12-2009 | Change |
| **Short-term investments** | **18,592** | **16,025** | **2,567** |
| **Cash and cash equivalents** | **559,173** | **514,389** | **44,784** |
| Cash equivalents and cash pooling | 557,714 | 118,810 | 438,904 |
| Short-term deposits | 916 | 390,934 | -390,018 |
| Bank balances | 534 | 4,634 | -4,100 |
| Cash in hand | 9 | 11 | -2 |
| **Total** | **577,765** | **530,414** | **47,351** |

In 2010, the average rate of return on short-term investments, cash and cash equivalents was 0.91%, compared to 1.48% in 2009. The average capital invested rose from €273.65 million in 2009 to €553.08 million in 2010.

The significant increase in the average volume invested is essentially due to the restructuring of the group, under which the group collected €322.6 million for the sale of its subsidiaries Fluxys Europe, Huberator and GMSL and shareholdings in APX-Endex Holding and C4Gas. However, this income was partially counterbalanced by Fluxys SA's declaration of interim dividends amounting to €160.2 million in December 2010.

## Note 23. Other current assets

| Other current assets | | | In thousands of € |
|---|---|---|---|
| | 31-12-2010 | 31-12-2009 | Change |
| Accrued income | 1,173 | 1,563 | -390 |
| Prepaid expenses | 4,818 | 10,733 | -5,915 |
| **Total** | **5,991** | **12,296** | **-6,305** |

Other current assets mainly comprise prepaid expenses amounting to €4,818 thousand (insurance, rent, etc.), with various items of accrued income accounting for the remainder.

## Note 24. Equity

Equity attributable to equity holders of the parent amounted to €1,400,716 thousand at 31 December 2010. The €31,633 thousand increase since the previous year is due to the overall result for the period attributable to equity holders of the parent (+ €249,919 thousand), minus the 2010 dividend payout (totalling €49.185 thousand) approved by the General Meeting of Fluxys SA, the interim dividends in December 2010 (totalling €160,201 thousand) and the impact of the acquisition of a non-controlling 6.80% interest in Fluxys LNG (€8,900 thousand).

Non-controlling interests fell by €19,911 thousand due to the group's purchase of a non-controlling 6.8% interest in Fluxys LNG and the sale of Huberator, of which 10% was held by an entity not belonging to the group.

Total dividends for the fiscal year 2010 amounted to €209,836 thousand.

| Note on parent company shareholding | Ordinary shares | Preferred shares | Total |
|---|---|---|---|
| **I. Movements in number of shares** | | | |
| 1. Number of shares, beginning balance | 702,636 | 0 | **702,636** |
| 2. Number of shares issued | | | **0** |
| 3. Number of ordinary shares cancelled or reduced ( - ) | | | **0** |
| 4. Number of preferred shares redeemed, converted or reduced ( - ) | | | **0** |
| 5. Other increase (/ decrease) | | | **0** |
| 6. Number of shares, ending balance | 702,636 | 0 | **702,636** |
| | | | |
| **II. Other information** | | | |
| 1. Per value of shares | Not specified | | |
| 2. Number of shares owned by the company | 0 | 0 | **0** |
| 3. Interim dividends during the fiscal year | | | **160,201** |

The share capital of Fluxys SA underwent the following changes in 2010:

- On 5 May 2010, Publigas SCRL purchased the 270,530 shares held by Electrabel. Since then it has held 89.97% of Fluxys SA shares.
- The General Meeting of 26 May 2010 decided to abolish category A shares following the disposal by Electrabel of its remaining shares in the company. In addition to the golden share, there are now two categories of nominal shares: category B (585,237 shares) and category D (117,398 shares).
- On 10 September 2010, Publigas SCRL transferred the whole of its stake (89.97%) in Fluxys SA to Fluxys G SA.

The share capital of Fluxys SA is represented by 702,636 nominal shares with no par value. These shares are divided into two categories, in addition to the specific share.

Nominal shares in category B are and remain registered. They are held by long-term shareholders.

Category D nominal shares are registered, dematerialised or bearer shares and are mainly held by the general public.

The Belgian State owns one specific registered share, namely share no. 1. In addition to the common rights attached to all other company shares, this share also carries specific rights pursuant to the Royal Decree of 16 June 1994, amended by the laws of 29 April 1999 and 26 June 2002, and the transposition of these laws into the articles of association of the company. These specific rights are exercised by the Federal Minister responsible for energy.

# Note 25. Interest-bearing borrowings

| Non-current interest-bearing borrowings | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Finance leases | 25.1 | 78,987 | 98,979 | -19,992 |
| Debentures | 25.2 | 349,258 | 349,108 | 150 |
| Other borrowings | 25.3 | 462,751 | 460,095 | 2,656 |
| Other liabilities | 25.4 | 270,318 | 132,398 | 137,920 |
| **Total** | | **1,161,314** | **1,040,580** | **120,734** |
| Of which debts guaranteed by the public authorities or by actual sureties | | 0 | 0 | 0 |

| Current interest-bearing borrowings | | | | In thousands of € |
|---|---|---|---|---|
| | Note | 31-12-2010 | 31-12-2009 | Change |
| Finance leases | 25.1 | 20,058 | 19,387 | 671 |
| Other borrowings | 25.3 | 63,520 | 15,885 | 47,635 |
| Other liabilities | 25.4 | 2,788 | 46,726 | -43,938 |
| **Total** | | **86,366** | **81,998** | **4,368** |
| Of which debts guaranteed by the public authorities or by actual sureties | | 0 | 0 | 0 |

25.1. Finance lease payables include contracts relating to Zeebrugge-Blaregnies (Troll) and Zeebrugge-Zelzate/Eynatten (RTR) border-to-border transmission facilities. In accordance with IAS 17, the lease contracts signed with GIE Finpipe in relation to Troll and RTR facilities are accounted for as finance leases. The Troll contract has a 20-year term that expires in 2012 and the RTR contract has a 17-year term that expires in 2015. When these contracts expire, Fluxys will be entitled to exercise its purchase options on these facilities.

25.2. On 21 December 2009, Fluxys issued a €350 million debenture, which provides a gross annual coupon of 4.125% and which is eligible for trading on the regulated Euronext Brussels market.

25.3. Other borrowings include:

- a loan amounting to €595 thousand bearing interest at 3.875% (falling due in 2011),
- a 10-year loan amounting to €59,500 thousand at a fixed annual interest rate of 4.747% contracted with the European Investment Bank (EIB) in August 2007 for the financing of the capacity enhancement at the Zeebrugge LNG terminal,
- a 25-year loan of €400,000 thousand at a fixed rate contracted with the EIB in December 2008 to finance investments in developing the gas transmission network,
- a loan of €11,751 thousand contracted with Fluxys Finance,
- the issue of commercial paper worth €47,985 thousand,
- accrued interest amounting to €6,440 thousand.

25.4. The regulatory liabilities included in 'Other liabilities' consist of the positive difference between the acquired regulated prices and the regulated prices invoiced. The share of tariffs gains listed as non-current liabilities corresponds to the regulatory liabilities to be used in more than one year's time, while the gains to be used within the year are listed as current liabilities. These amounts bear interest at the Euribor 1 year rate.

'Other non-current liabilities' also include those amounts that have been challenged since 2008 and 2009 in relation to CREG decisions as regards how costs should be distributed between activities. Given that no final legal judgment had been issued when these financial statements were authorised for issue, and although it formally contests CREG's decisions, Fluxys group had opted for prudence and reflected the impact of CREG's decisions in its 2008 and 2009 financial statements.

| Maturity of interest-bearing borrowings at 31-12-2010 | | | | In thousands of € |
|---|---|---|---|---|
| | Up to one year | Between one and five years | Over five years | Total |
| Finance leases | 20,058 | 78,987 | 0 | 99,045 |
| Debentures | 0 | 349,258 | 0 | 349,258 |
| Other borrowings | 63,520 | 68,000 | 394,751 | 526,271 |
| Other liabilities | 2,788 | 270,318 | 0 | 273,106 |
| **Total** | **86,366** | **766,563** | **394,751** | **1,247,680** |
| **Supplementary information** | | | | |
| Finance leases : | | | | |
| Present value of minimum lease payments at market rate | 25,109 | 81,521 | 0 | 106,630 |
| Total minimum lease payments | 25,709 | 87,485 | 0 | 113,194 |
| Interests | 5,651 | 8,498 | 0 | 14,149 |

| Maturity of interest-bearing borrowings at 31-12-2009 | | | | In thousands of € |
|---|---|---|---|---|
| | Up to one year | Between one and five years | Over five years | Total |
| Finance leases | 19,387 | 79,561 | 19,418 | 118,366 |
| Debentures | 0 | 0 | 349,108 | 349,108 |
| Other borrowings | 15,885 | 48,595 | 411,500 | 475,980 |
| Other liabilities | 46,726 | 132,398 | 0 | 179,124 |
| **Total** | **81,998** | **260,554** | **780,026** | **1,122,578** |
| **Supplementary information** | | | | |
| Finance leases : | | | | |
| Present value of minimum lease payments at market rate | 23,832 | 75,997 | 13,856 | 113,685 |
| Total minimum lease payments | 26,225 | 93,089 | 20,003 | 139,317 |
| Interests | 6,838 | 13,528 | 585 | 20,951 |

The total value of minimum lease payments corresponds to the best estimate, at the balance sheet date, of the lease payments to be paid, regardless of whether they relate to the capital to be refunded (finance leases), the interest to be paid (interest), or the purchase option (finance leases). These payments are discounted at market rate so as to obtain the present value of the minimum lease payments.

# Note 26. Provisions

## 26.1. Provisions (excluding provisions for employee benefits)

| Provisions | | | In thousands of € |
|---|---|---|---|
| | Litigation and claims | Environment and site restoration | Total (excluding employee benefits) |
| **Provisions at 31-12-2009** | **178,925** | **22,849** | **201,774** |
| Additions | 1,510 | 10,500 | 12,010 |
| Use | -310 | -832 | -1,142 |
| Surpluses | -4,958 | | -4,958 |
| Unwinding of the discount | | 128 | 128 |
| | | | |
| **Provisions at 31-12-2010** of which : | **175,167** | **32,645** | **207,812** |
| Non-current provisions | 2,201 | 26,815 | 29,016 |
| Current provisions | 172,966 | 5,830 | 178,796 |

The year's additions to provisions mainly relate to the establishment of a provision intended to cover the costs of decommissioning the peak-shaving plant at Dudzele (€10,500 thousand).

The surplus provision recorded in 2010 relates to the collapse of the Vivegnis bridge (accident dating back to 1985). This case was closed in the course of the fiscal year 2010.

There was no change in the provisions established in 2008 and 2009 following CREG's decisions on the applicable border-to-border transmission tariff and on the interpretation of the border-to-border transmission contracts included in the regulatory scope. See the Annual Report 2009 for more details.

## 26.2. Provisions for employee benefits

| Provisions for employee benefits | In thousands of € |
|---|---|
| **Provisions at 31-12-2009** | **69,507** |
| Additions | 5,913 |
| Use | -11,580 |
| Surpluses | 0 |
| Unwinding of the discount | 7,758 |
| Actual gains / losses recognised in profit / loss | 391 |
| Expected return on plan assets | -5,361 |
| Actual gains / losses directly recognised in equity | -3,738 |
| | |
| **Provisions at 31-12-2010** of which : | **62,890** |
| Non-current provisions | 58,925 |
| Current provisions | 3,965 |

The decrease in provisions for employee benefits is mainly due to the increase in the value of the plan assets held by the pension funds and insurance companies, caused among other reasons by the recovery of the financial markets. In accordance with the group's accounting policies, this did not affect profit but had a direct impact on the consolidated equity (see Note 27 below).

## 26.3. Movements in the income statement and maturity of provisions

Movements in positions in the income statement can be broken down as follows :

| Impact | | | In thousands of € |
|---|---|---|---|
| | **Additions** | **Use and reversals** | **Total** |
| Profit (loss) from continuing operations | 17,923 | -17,680 | 243 |
| Financial profit (loss) | 8,277 | -5,361 | 2,916 |
| **Total** | **26,200** | **-23,041** | **3,159** |

| Maturity of provisions at 31-12-2010 | | | | In thousands of € |
|---|---|---|---|---|
| | Up to one year | Between one and five years | Over five years | Total |
| Litigation and claims | 172,966 | 0 | 2,201 | 175,167 |
| Environment and site restoration | 5,830 | 13,892 | 12,923 | 32,645 |
| **Subtotal** | **178,796** | **13,892** | **15,124** | **207,812** |
| Employee benefits | 3,965 | 19,824 | 39,101 | 62,890 |
| **Total** | **182,761** | **33,716** | **54,225** | **270,702** |

| Maturity of provisions at 31-12-2009 | | | | In thousands of € |
|---|---|---|---|---|
| | Up to one year | Between one and five years | Over five years | Total |
| Litigation and claims | 171,776 | 0 | 7,149 | 178,925 |
| Environment and site restoration | 6,456 | 3,452 | 12,941 | 22,849 |
| **Subtotal** | **178,232** | **3,452** | **20,090** | **201,774** |
| Employee benefits | 4,342 | 21,709 | 43,456 | 69,507 |
| **Total** | **182,574** | **25,161** | **63,546** | **271,281** |

### Discount rate

Long-term provisions are discounted based on interest rates that have changed as follows:

| | 31-12-2010 | 31-12-2009 |
|---|---|---|
| Between one and five years | 2.4% | 2.9% |
| Between six and ten years | 3.7% | 3.9% |
| Over ten years | 4.3% | 4.6% |

### Provisions for litigation and claims

These provisions have been established to cover potential litigation payments arising for instance from the construction of the Zeebrugge LNG terminal (1983), as well as the regulatory risk incurred by Fluxys for the fiscal years 2008 and 2009 in connection with the appeals brought before the courts having jurisdiction in the relevant instances.

They also cover the estimated uninsured risks for the Fluxys group with regard to accidents, mainly Ghislenghien (2004). Developments in the Ghislenghien case have been commented on in the directors' report. Apart from the closure of the Vivegnis accident case (see above), there have been no significant developments in any of the other cases in 2010.

The estimate for these provisions is based on the value of claims filed or on the estimated amount of the risk exposure.

### Provisions for the environment and site restoration

These provisions mainly relate to obligations for safety, clean-up and restoration of sites in the process of being shut down, as well as definitive actions to be implemented for pipelines out of use and other environmental measures.

These provisions are accrued in accordance with the Belgian regional environmental legislation and the Belgian Gas Act. The obligations covered by these provisions require action plans and numerous studies in cooperation with the various public authorities and the institutions established for this purpose.

## Note 27. Provisions for employee benefits

### Description of the principal retirement schemes and related benefits

In Belgium collective agreements regulate the rights of company employees in the electricity and gas industries.

These agreements cover 'salary scale' personnel recruited before 1 June 2002 and management personnel recruited before 1 May 1999. They provide the beneficiaries with lump sum pension benefits that vary according to their final annual pay and the number of years of service upon retirement. These retirement schemes are referred to as defined benefit pension plans.

Obligations under these defined benefit pension plans are funded through a number of pension funds for the electricity and gas industries and through insurance companies.

Employees and employers contribute to these pension plans. The employer's contribution is determined annually on the basis of an actuarial report. This is to ensure that the minimum legal funding requirements have been met and that the long-term funding of the benefits is assured.

'Salary scale' personnel recruited after 1 June 2002 and management staff recruited after 1 May 1999 are covered by defined contribution pension plans. For payments made after 1 January 2004, the law requires an average annual return over the career of at least 3.25% for employer's contributions and at least 3.75% for employees' contributions, with any deficit being covered by the employer. The employer's contributions paid to fund these retirement schemes amounted to €2,446 thousand in 2010.

Fluxys group also has early pension schemes, other post-employment benefits such as reimbursement of medical expenses and price subsidies, as well as other long-term benefits (seniority payments). Not all of these benefits are funded.

| Pension and other benefit obligations of Fluxys group | | | | | | In thousands of € |
|---|---|---|---|---|---|---|
| | 31-12-2010 | | | 31-12-2009 | | |
| | Pensions | Other benefits | Total | Pensions | Other benefits | Total |
| **Changes in defined benefit obligation** | | | | | | |
| Defined benefit obligation at beginning of year | -140,630 | -32,271 | -172,901 | -140,566 | -33,242 | -173,808 |
| Service costs | -4,986 | -1,189 | -6,175 | -4,993 | -773 | -5,766 |
| Interest costs | -6,277 | -1,481 | -7,758 | -6,787 | -1,507 | -8,294 |
| Participants' contributions | -282 | 0 | -282 | -258 | 0 | -258 |
| Actuarial gains and losses | 1,647 | -1,093 | 554 | 3,678 | 1,779 | 5,457 |
| Benefits paid | 6,226 | 2,185 | 8,411 | 8,296 | 1,472 | 9,768 |
| Past service costs | 0 | 0 | 0 | 0 | 0 | 0 |
| Curtailments | 0 | 0 | 0 | 0 | 0 | 0 |
| Settlements | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| **Defined benefit obligation at end of year** | **-144,302** | **-33,849** | **-178,151** | **-140,630** | **-32,271** | **-172,901** |
| Wholly or partially funded | -134,004 | 0 | -134,004 | -130,570 | 0 | -130,570 |
| Unfunded | -10,298 | -33,849 | -44,147 | -10,060 | -32,271 | -42,331 |
| **Changes in plan assets** | | | | | | |
| Fair value of plan assets at beginning of year | 103,394 | 0 | 103,394 | 96,823 | 0 | 96,823 |
| Expected return on plan assets | 5,361 | 0 | 5,361 | 5,652 | 0 | 5,652 |
| Actuarial gains and losses | 2,793 | 0 | 2,793 | 424 | 0 | 424 |
| Employer's contributions | 9,657 | 2,185 | 11,842 | 8,533 | 1,472 | 10,005 |
| Participants' contributions | 282 | 0 | 282 | 258 | 0 | 258 |
| Benefits paid | -6,226 | -2,185 | -8,411 | -8,296 | -1,472 | -9,768 |
| Settlements | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| **Fair value of plan assets at end of year** | **115,261** | **0** | **115,261** | **103,394** | **0** | **103,394** |
| Actual return on plan assets | 8,154 | 0 | 8,154 | 6,076 | 0 | 6,076 |
| Defined benefit obligation | -144,302 | -33,849 | -178,151 | -140,630 | -32,271 | -172,901 |
| Fair value of plan assets | 115,261 | 0 | 115,261 | 103,394 | 0 | 103,394 |
| **Deficit or surplus** | **-29,041** | **-33,849** | **-62,890** | **-37,236** | **-32,271** | **-69,507** |
| Unrecognised actuarial gains and losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Unrecognised past service costs | 0 | 0 | 0 | 0 | 0 | 0 |
| Asset ceiling | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net liability** | **-29,041** | **-33,849** | **-62,890** | **-37,236** | **-32,271** | **-69,507** |

The cost for the fiscal year related to pensions and other benefits can be broken down as follows:

| Expense of the period | | In thousands of € |
|---|---|---|
| | **31-12-2010** | **31-12-2009** |
| Service costs | -6,175 | -5,766 |
| Interest costs | -7,758 | -8,294 |
| Expected return on plan assets | 5,361 | 5,652 |
| Actuarial gains and losses recognised in profit | -391 | 680 |
| Past service costs | 0 | 0 |
| Profit or loss on curtailments and settlements | 0 | 0 |
| Asset ceiling | 0 | 0 |
| **Total** | **-8,963** | **-7,728** |

Service costs for the year are recorded as personnel costs and net additions to the provisions. Interest costs and actuarial gains and losses are recorded as financial expense while the expected return on plan assets is included in financial income.

At 31 December 2010, the cumulative actuarial losses directly recognised in equity and related deferred taxes amounted to €6,595 thousand compared to cumulative actuarial losses of €10,333 thousand at the end of 2009, which represents an increase of €3,738 thousand for the fiscal year.

The plan assets listed by principal asset categories are as follows:

| | | In% |
|---|---|---|
| | 31-12-2010 | 31-12-2009 |
| Shares | 24% | 23% |
| Bonds | 54% | 54% |
| Property | 6% | 8% |
| Other (including monetary assets) | 16% | 15% |
| **Total** | **100%** | **100%** |

### Actuarial assumptions

The actuarial assumptions for Fluxys group have been determined by qualified actuaries. The principal assumptions are:

| Principal actuarial assumptions | | | | In% |
|---|---|---|---|---|
| | 31-12-2010 | | 31-12-2009 | |
| | Pensions | Other benefits | Pensions | Other benefits |
| Discount rate | 4.30% | 4.30% | 4.60% | 4.60% |
| Expected return on plan assets | 5.00% | - | 6.00% | - |
| Expected salary increase | 4.00% | 4.00% | 4.00% | 4.00% |
| Increase in medical costs | - | 3.00% | - | 3.00% |

The expected return on plan assets is determined by asset category, with each asset category having its own estimated rate of return.

The impact of a change of 1% on medical costs is as follows:

| | Increase of 1% | Decrease of 1% |
|---|---|---|
| Aggregate of the service cost and interest cost | -140 | 124 |
| Defined benefit obligation | -2,070 | 1,931 |

The following table shows experience adjustments to actuarial gains and losses :

| Change over five periods | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Defined benefit obligation | -178,151 | -172,901 | -173,808 | -166,343 | -179,548 |
| Fair value of plan assets | 115,261 | 103,394 | 96,823 | 113,791 | 124,289 |
| Deficit or surplus | -62,890 | -69,507 | -76,985 | -52,552 | -55,259 |
| Experience adjustments resulting from : | | | | | |
| Defined benefit obligation | 4,351 | 10,962 | 5,044 | -1,196 | 820 |
| Plan assets | 2,793 | 424 | -22,984 | -1,512 | 6,812 |

The group expects to contribute €8,283 thousand to its defined benefit pension plans in 2011.

## Note 28. Deferred tax assets and liabilities

| Recognised deferred tax liabilities | | | In thousands of € |
|---|---|---|---|
| | 31-12-2010 | 31-12-2009 | Change |
| Valuation of property, plant and equipment | 479,909 | 503,804 | -23,895 |
| Income to be received | 5,861 | 5,884 | -23 |
| Fair value of financial instruments | 7,261 | 6,656 | 605 |
| Tax credits | 0 | 0 | 0 |
| Provisions for employee benefits or provisions not accounted for under IFRS | 15,708 | 10,701 | 5,007 |
| Other normative differences | 3,348 | 3,314 | 34 |
| **Total** | **512,087** | **530,359** | **-18,272** |

Deferred tax assets and liabilities are offset within each taxable entity.

The main source of deferred tax is the difference between the book base and the tax base of property, plant and equipment. This difference arises first from the recognition in the opening balance sheet of acquired property, plant and equipment at their fair value corresponding to their deemed cost and, second, from the booking at fair value of the assets and liabilities arising from the SEGEO and Distrigas & C° business combinations in 2008.

Provisions made in accordance with IFRS 19 (Employee benefits) and provisions recognised under Belgian standards but not accounted for under IFRS are another major source of deferred tax.

Finally, the measurement of financial instruments at their fair value also leads to the recognition of deferred tax. The financial instruments involved are interest rate swaps, forward contracts in USD and the valuation of call/put options relating to the LNG ship. See the note on financial instruments for more details.

All deferred tax assets and liabilities are recognised, except for deferred taxes on the retained earnings of subsidiaries. Those unrecognised deferred tax liabilities for Fluxys LNG and Guimard SA are estimated at €29 thousand of deferred tax liabilities.

| Movement for the period | | In thousands of € |
|---|---|---|
| | Note | Deferred tax liabilities |
| **At 31-12-2009** | | **530,359** |
| Deferred tax expenses – income statement | 9 | -21,678 |
| Deferred tax expenses – other comprehensive income | | 1,271 |
| Business combinations | | 4,246 |
| Changes in consolidation scope | | -2,111 |
| **At 31-12-2010** | | **512,087** |

## Note 29. Current tax payable

| Current tax payable | | | In thousands of € |
|---|---|---|---|
| | **31-12-2010** | **31-12-2009** | **Change** |
| Income tax payable | 15,129 | 11,717 | 3,412 |
| **Total** | **15,129** | **11,717** | **3,412** |

Current tax payable comprises income tax payable. The increase is due to the estimated 2010 income tax payable upon receipt of the notification/assessment.

Current tax receivables and payables are recognised separately for each legal entity.

## Note 30. Trade and other liabilities

| Trade and other liabilities | | | In thousands of € |
|---|---|---|---|
| | **31-12-2010** | **31-12-2009** | **Change** |
| Trade payables | 76,979 | 90,359 | -13,380 |
| Payroll and related items | 21,482 | 20,284 | 1,198 |
| Other amounts payable | 1,853 | 2,391 | -538 |
| **Total** | **100,314** | **113,034** | **-12,720** |

Trade and other liabilities decreased vis-à-vis 2009 due to lower trade payables. Last year the amount was influenced by the receipt of a substantial number of investment-related invoices in December 2009.

## Note 31. Other current liabilities

| Other current liabilities | | | In thousands of € |
|---|---|---|---|
| | **31-12-2010** | **31-12-2009** | **Change** |
| Deferred income | 1,528 | 1,801 | -273 |
| Accrued expenses | 571 | 594 | -23 |
| **Total** | **2,099** | **2,395** | **-296** |

Other current liabilities include unearned income to be carried forward to the next fiscal year and accrued expenses.

## Note 32. Contingent assets and liabilities and the group's rights and commitments

### 32.1. Litigation

#### 32.1.1 Litigation regarding the oil business

Pursuant to an agreement signed on 9 November 1979, the Belgian State commissioned Fluxys SA (formerly Distrigas) to negotiate the purchase of crude oil with the Kingdom of Saudi Arabia. Fluxys SA (formerly Distrigas) accepted this assignment provided that the Belgian State covered the costs, losses and all risks inherent to this assignment.

As part of the decision to discontinue the oil business, claims were submitted to the Belgian State and to Fluxys SA (formerly Distrigas).

The risk incurred by Fluxys SA (formerly Distrigas) is covered by a guarantee from the Belgian State (Royal Decree of 3 February 1981 – Belgian Official Gazette of 17 February 1981) pursuant to the agreement of 9 November 1979 between the Belgian State and Fluxys SA (formerly Distrigas) and the letter of 30 December 1983 from the Ministers for Finance and Economic Affairs.

#### 32.1.2 Other litigation

**CREG decisions**

As mentioned in the foreword to the directors' reports of the 2008 and 2009 annual reports, Fluxys appealed against the decisions on tariffs taken by CREG in 2008. Given that no final judgment had been issued when these financial statements were authorised for issue, and notwithstanding the fact that it vigorously disputes CREG's decisions, Fluxys group decided to act prudently and incorporate the results of these CREG decisions in its financial statements for 2008 and 2009.

**Income tax expenses**

In 2007, 2008 and 2009, amendment notices for the tax years 2005 and 2006 were issued by the tax authorities. The resulting tax assessments amounting to €2,467 thousand were received and were settled when due. They are disputed by the relevant companies of the group and have not been recognised in profit and loss.

**Other claims**

Other claims arising from the operation of our gas transmission network are in progress but their potential impact is immaterial.

### 32.2. Assets and items held for third parties, in their name, but at the risk and for the benefit of companies included in the consolidation scope

In the ordinary course of business Fluxys group holds gas belonging to its customers at its storage sites in Loenhout and in the tanks at the LNG terminal in Zeebrugge. At 31 December 2010, the quantities of gas involved amounted to 6,318,607 MWh.

### 32.3. Guarantees received

Bank securities for the benefit of the group comprise guarantees received from contractors in respect of construction contracts as well as bank guarantees received from customers. At 31 December 2010; the guarantees received amounted to €165,133 thousand.

## 32.4. Guarantees provided by third parties on behalf of the company

Rental guarantees in favour of the owners of assets located in Belgium and leased by the group amounted to €401 thousand at 31 December 2010.

At 31 December 2010, other guarantees amounted to €53 thousand.

## 32.5. Long-term leases and availability agreements

To meet the requirements of its activities Fluxys signed various long-term operating leases with minimum future lease payments of €2,142 thousand at 31 December 2010.

| Maturity of minimum future payments in respect of lease payments under non-cancellable operating leases | | In thousands of € |
|---|---|---|
| | **At 31-12-2010** | **At 31-12-2009** |
| Up to one year | 571 | 875 |
| One to five years | 1,571 | 2,142 |
| Over five years | 0 | 0 |
| **Total** | 2,142 | 3,017 |

Fluxys group also has availability agreements (including so-called domanial concessions) with third parties for sites on which its facilities are being built. These agreements expire between 2011 and 2059.

## 32.6. Commitments with regard to the Interconnector Zeebrugge Terminal (IZT)

The IZT lease contract includes a purchase option for the lessee that can be exercised on 1 October 2018 for an amount of €4,593 thousand. As part of this transaction, surface rights have been attributed.

## 32.7. Commitments as part of the RTR lease agreement

As part of the RTR lease agreement, Fluxys made a commitment to G.I.E. Finpipe to pay royalties for the availability of the RTR facilities. In addition, G.I.E. Finpipe entrusted an assignment for delegation and construction management to Fluxys on 29 September 1998.

### 32.8. Commitments as part of the Troll lease agreement

As part of the Troll lease agreement, Fluxys made a commitment to pay royalties to G.I.E. Finpipe for the availability of the Troll facilities, to purchase the facilities and to take over the related financing arrangements under certain circumstances. Furthermore, G.I.E. Finpipe entrusted an assignment for delegation and construction management to Fluxys on 14 August 1991.

### 32.9. Commitments under the capacity subscription agreements

The Capacity Subscription Agreements (CSA) concluded with the terminal users of the Zeebrugge LNG terminal provide for 1,711 slots to be available from 2011 to 2027.

### 32.10. Commitments in relation to loans and to the European Investment Bank (BEI)

Fluxys group was granted two loans by the European Investment Bank (EIB). They contain contractual clauses (financial covenants) which are fulfilled by Fluxys group at 31 December 2010. Like the debenture, these loans contain a *pari passu* clause.

In addition, Fluxys granted a guarantee to the EIB for the account of Fluxys G in relation to the stake in Interconnector (UK) Ltd. This guarantee is currently being transferred to Fluxys G.

### 32.11. Acquisition of Fluxys & Co

As regards border-to-border transmission activities, the transaction for the acquisition of Fluxys & Co includes a price escalation clause if any legislative, regulatory or judicial decisions issued between now and the end of the adjustment period, which runs to 2015, generate a higher value for the border-to-border transmission activities than the agreed upon price (€350 million).

Furthermore, Fluxys obtained a guarantee of €250 million from Publigas to cover the risk that the value of the activities mentioned above would be less than €350 million, as a result of legislative, regulatory or judicial decisions. This guarantee is also valid until 2015.

It should be remembered that under the agreements concluded between Electrabel and Publigas in the first half of 2010, Publigas took over all of the guarantees given to Fluxys regarding the value of those assets.

Finally, Distrigas has a call option on Fluxys & Co, which holds an interest in an LNG ship. This option can be exercised for six months after a period of three years, starting in 2009. The exercise price of the option is €70 million. Fluxys also has a put option on SUEZ-Tractebel (or any other entity it designates within the SUEZ-Tractebel group) which has the same purpose and conditions as the call option, should Distrigas not exercise the latter.

## 32.12. Environmental policy

Fluxys has a programme in place to bring its facilities in conformity with noise, atmospheric emission and soil pollution standards, and to clean up existing pipelines. Commitments under this programme were estimated at €10,938 thousand at 31 December 2010.

This programme is monitored by the internal environmental coordination unit responsible, among others, for implementing and monitoring Fluxys's environmental policy.

## 32.13. Other commitments made and received

Other commitments have been made and received by Fluxys group, but their potential impact is immaterial.

# Note 33. Financial instruments

## Principles for managing financial risks

In the course of conducting its activities, Fluxys group is exposed to credit and counterparty risks, liquidity and interest rate risks and foreign exchange and market risks, all of which affect its assets and its liabilities.

The group's administrative organisation, controlling function and financial reports ensure that these risks are constantly monitored and managed.

The group may only use financial instruments for hedging, and not for speculative or trading purposes. All transactions are intended to meet the group's liquidity needs: no transaction may be entered into for the sole purpose of earning a speculative gain.

## Cash management policy

Fluxys group's cash is managed as part of a general policy that was approved by the Board of Directors.

Under this policy, cash surpluses are invested with Fluxys Finance SA under cash pooling agreements. By way of reminder, Fluxys Finance is the company in which the management of Fluxys G's cash funds and financing is centralised.

The objective of this policy is to optimise the group's cash positions through the internal recycling of resources, primarily to finance group projects. Transactions are entered into at market terms and conditions.

The group's financial policy stipulates that cash surpluses other than those referred to above be maintained at first class financial institutions or invested in financial instruments issued by companies with a high credit rating or in financial instruments of issuers which are covered by a guarantee from a European national government or whose share capital is predominantly controlled by state-owned entities. Cash surpluses are invested following a competitive bidding award, and in instruments that are sufficiently diversified to limit counterparty risk concentration. These investments are subject to continual monitoring and to risk analysis on a case-by-case basis.

At 31 December 2010, short-term investments, cash and cash equivalents amounted to €577,765 thousand. In the majority of cases, cash surpluses cannot be invested for more than three months.

### Credit and counterparty risks

The group systematically assesses its counterparties' financial capacity and systematically monitors receivables. Group policy regarding counterparty risks requires that the group submits potential customers and suppliers to a detailed preliminary financial analysis (liquidity, solvency, profitability, reputation and risks). The group uses internal and external information, such as official analyses performed by rating agencies (Moody's, Standard & Poor's and Fitch). These rating agencies assess companies in relation to risk and award them a credit score. The group also uses databases containing general, financial and market information to complement its own evaluation of potential customers and suppliers. In addition, for most of its activities the group is allowed to contractually require guarantees (either bank guarantees or cash deposits) from counterparties. The group thereby reduces its exposure to credit risk both in terms of default and concentration of risk.

### Foreign exchange risk

The group's transactions are mostly denominated in EUR.

Group policy requires that all foreign currency assets and liabilities be hedged. Residual foreign currency positions may remain open for short periods, provided that they involve the group's main currencies and as long as the total net position does not exceed €1 million.

The group is exposed to risks related to EUR/USD exchange rate fluctuations, mainly because of its interest in the LNG ship, which generates revenues denominated in USD. The group has entered into foreign exchange contracts to hedge this risk. Although these contracts largely offset exposure to USD, they do not meet the strict criteria for hedge accounting set out in IAS 39 (Financial Instruments: Recognition and Measurement).

Therefore, a sensitivity analysis would not be representative of the risk associated with these financial instruments.

The fair value of these financial instruments is reported as an asset in the 'Other financial assets' section of the balance sheet and amounted to €15,948 thousand at 31 December 2010. Their use and the change in their fair value over the year had a negative impact of €3,546 thousand on the result for the period. The hedged notional amount was US$ 68.4 million and maturities fall between 2011 and 2022.

### Interest rate risk

The group's debt mainly consists of fixed interest rate loans amounting to €875,529 thousand at 31 December 2010 and maturing between 2011 and 2033 and finance lease payables with durations of between 17 and 20 years (fixed at the outset).

Part of the liabilities from finance leases is financed at a short-term interest rate. To manage this risk exposure, the group uses interest rate swap contracts to swap a floating rate for a fixed rate of 5.19%. Although these contracts largely offset the risk exposure, they do not meet the strict criteria for hedge accounting under IAS 39 (Financial Instruments: Recognition and Measurement).

The fair value of these financial instruments was reported as a liability under 'Other financial liabilities' and amounted to €3,005 thousand at 31 December 2010. Their use and the change in their fair value over the year had a positive impact of €801 thousand on the result for the period. The hedged notional amount amounted to €35.0 million and maturities fall between 2011 and 2014.

In addition, the group's interest-bearing liabilities include liabilities to be used within the regulatory framework. As further explained in Note 25, these tariff gains carry interest at the Euribor 1 year rate, which was set by the Royal Decree on Tariff Structure of 8 June 2007. The group does not incur any interest rate risks related to this.

Therefore, a sensitivity analysis is not representative of the risk inherent in these financial instruments.

Consequently, Fluxys group's exposure to interest rate risk is very limited.

### Liquidity risk

Liquidity risk management is essential since maximum liquidity and optimum use of cash represent a major objective of Fluxys group. The amounts invested and the investment period reflect the short- and long-term planning of cash needs as closely as possible, taking into account operational risks.

### Call/put options

Distrigas has a call option on Fluxys & Co, which holds an interest in an LNG ship. This option can be exercised for six months after a period of three years, starting in 2009. The exercise price of the option is €70 million. Fluxys also has a put option on SUEZ-Tractebel (or any other company it designates within the SUEZ-Tractebel group) which has the same purpose and conditions as the call option, should Distrigas not exercise the latter.

These options were valued in the financial statements (IFRS) at €8,420 thousand at 31 December 2010. They are reported in the 'Other financial assets' section of the balance sheet.

## Summary of financial instruments at balance sheet date

In thousands of €

| | 31-12-2010 | Note | Financial assets or financial liabilities at cost | Held-to-maturity investments at cost | Assets or liabilities at fair value | Loans and receivables at cost | Other liabilities at cost |
|---|---|---|---|---|---|---|---|
| I. Non-current assets | | | 39 | 0 | 0 | 87,569 | 0 |
| Other non-current financial assets | 39 | 16 | 39 | | | | |
| Finance lease receivables | 27,370 | 7b-17 | | | | 27,370 | |
| Other non-current assets | 60,199 | 18 | | | | 60,199 | |
| II. Current assets | | | 0 | 559,173 | 42,960 | 61,716 | 0 |
| Other current financial assets | 24,368 | 33 | | | 24,368 | | |
| Finance lease receivables | 1,718 | 7b-17 | | | | 1,718 | |
| Trade and other receivables | 59,998 | 21 | | | | 59,998 | |
| Short-term investments | 18,592 | 7b-22 | | | 18,592 | | |
| Cash and cash equivalents | 559,173 | 7b-22 | | 559,173 | | | |
| Total financial instruments – assets | 751,457 | | 39 | 559,173 | 42,960 | 149,285 | 0 |
| | | | | | | | |
| II. Non-current liabilities | | | 1,161,314 | 0 | 0 | 0 | 0 |
| Interest-bearing liabilities | 1,161,314 | 8-25 | 1,161,314 | | | | |
| III. Current liabilities | | | 86,366 | 0 | 3,005 | | 100,314 |
| Interest-bearing liabilities | 86,366 | 8-25 | 86,366 | | | | |
| Other financial liabilities | 3,005 | 33 | | | 3,005 | | |
| Trade and other payables | 100,314 | 30 | | | | | 100,314 |
| Total financial instruments – liabilities | 1,350,999 | | 1,247,680 | 0 | 3,005 | 0 | 100,314 |

## Summary of financial instruments at balance sheet date — In thousands of €

| | 31-12-2009 | Note | Financial assets or financial liabilities at cost | Held-to-maturity investments at cost | Assets or liabilities at fair value | Loans and receivables at cost | Other liabilities at cost |
|---|---|---|---|---|---|---|---|
| **I. Non-current assets** | | | **84,242** | **0** | **0** | **29,088** | **0** |
| Other non-current financial assets | 84,242 | 16 | 84,242 | | | | |
| Finance lease receivables | 29,088 | 7b-17 | | | | 29,088 | |
| Other non-current assets | 0 | 18 | | | | 0 | |
| **II. Current assets** | | | **0** | **514,389** | **39,275** | **65,906** | **0** |
| Other current financial assets | 23,250 | 33 | | | 23,250 | | |
| Finance lease receivables | 1,395 | 7b-17 | | | | 1,395 | |
| Trade and other receivables | 64,511 | 21 | | | | 64,511 | |
| Short-term investments | 16,025 | 7b-22 | | | 16,025 | | |
| Cash and cash equivalents | 514,389 | 7b-22 | | 514,389 | | | |
| **Total financial instruments – assets** | **732,900** | | **84,242** | **514,389** | **39,275** | **94,994** | **0** |
| | | | | | | | |
| **II. Non-current liabilities** | | | **1,040,580** | **0** | **0** | **0** | **0** |
| Interest-bearing liabilities | 1,040,580 | 8-25 | 1,040,580 | | | | |
| **III. Current liabilities** | | | **81,998** | **0** | **3,806** | **0** | **113,034** |
| Interest-bearing liabilities | 81,998 | 8-25 | 81,998 | | | | |
| Other financial liabilities | 3,806 | 33 | | | 3,806 | | |
| Trade and other payables | 113,034 | 30 | | | | | 113,034 |
| **Total financial instruments – liabilities** | **1,239,418** | | **1,122,578** | **0** | **3,806** | **0** | **113,034** |

### Fair value measurement hierarchy

- Level 1: The fair value of short-term investments is based on quoted prices.
- Level 2: The fair value of other financial assets and liabilities is based on inputs other than quoted prices that are observable for the asset or liability concerned, either directly or indirectly.

### Unused credit lines

The group had €66,997 thousand in unused credit lines available at 31 December 2010, which is the same as at 31 December 2009.

## Note 34. Related parties

In 2010, Fluxys and majority shareholder Publigas adapted their structures into a new arrangement that takes into account recent changes in Belgian legislation regarding the independence of system operators vis-à-vis natural gas suppliers.

Within the new structure, Publigas set up Fluxys G (initially Fluxys Holding), a wholly-owned subsidiary into which Publigas incorporated its stake in Fluxys SA.

On 30 September 2010, Fluxys G took over the shareholdings that Fluxys SA held in Fluxys Finance SA and Fluxys Europe BV. The latter then acquired from Fluxys its shareholdings in Huberator SA, GMSL Ltd, APX-Endex Holding BV and C4Gas SAS.

In 2010, transactions with related parties mainly involved services provided to Fluxys G from September 2010 as well as transactions with Fluxys Finance SA, in which the management of group Fluxys G's cash funds and financing is centralised.

In 2009, the consolidated financial statements included transactions entered into by the Fluxys group in the ordinary course of business with non-consolidated companies. These transactions were entered into under market terms and conditions and mainly consisted of transactions with Electrabel, SUEZ-Tractebel and BPC.

| Related parties | | | | | | | | In thousands of € |
|---|---|---|---|---|---|---|---|---|
| | 31-12-2010 | | | | 31-12-2009 | | | |
| | Joint ventures | Associates | Other related parties | Total | Joint ventures | Associates | Other related parties | Total |
| **I. Assets with related parties** | **0** | **0** | **470,434** | **470,434** | **0** | **216** | **0** | **216** |
| **1. Other financial assets** | **0** | **0** | **9,616** | **9,616** | **0** | **31** | **0** | **31** |
| 1.1. Securities other than shares | 0 | 0 | 0 | 0 | 0 | 31 | 0 | 31 |
| 1.2. Loans | 0 | 0 | 9,616 | 9,616 | 0 | 0 | 0 | 0 |
| **2. Other non-current assets** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| 2.1. Finance lease contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2.2. Other non-current receivables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **3. Trade and other receivables** | **0** | **0** | **1,857** | **1,857** | **0** | **185** | **0** | **185** |
| 3.1. Trade receivables | 0 | 0 | 1,857 | 1,857 | 0 | 185 | 0 | 185 |
| 3.2. Finance lease contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3.3. Other receivables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **4. Cash and cash equivalents** | **0** | **0** | **458,961** | **458,961** | **0** | **0** | **0** | **0** |
| **5. Other current assets** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **II. Liabilities with related parties** | **0** | **0** | **11,751** | **11,751** | **0** | **317** | **0** | **317** |
| **1. Interest-bearing liabilities (current and non-current)** | **0** | **0** | **11,751** | **11,751** | **0** | **0** | **0** | **0** |
| 1.1. Bank borrowings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1.2. Finance lease contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1.3. Bank overdrafts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1.4. Other borrowings | 0 | 0 | 11,751 | 11,751 | 0 | 0 | 0 | 0 |
| **2. Trade and other payables** | **0** | **0** | **0** | **0** | **0** | **317** | **0** | **317** |
| 2.1. Trade payables | 0 | 0 | 0 | 0 | 0 | 161 | 0 | 161 |
| 2.2. Other payables | 0 | 0 | 0 | 0 | 0 | 156 | 0 | 156 |
| **3. Other current liabilities** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **III. Transactions with related parties** | | | | | | | | |
| **1. Sale of non-current assets** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **2. Purchase of non-current assets ( - )** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **3. Services rendered and goods delivered** | **0** | **0** | **1,523** | **1,523** | **0** | **767** | **0** | **767** |
| **4. Services received ( - )** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **5. Financial income** | **0** | **0** | **863** | **863** | **0** | **0** | **0** | **0** |
| **6. Key management personnel remunerations (including directors)** | | | **3,076** | **3,076** | | | **2,629** | **2,629** |
| Short-term employee benefits | | | 2,560 | 2,560 | | | 2,203 | 2,203 |
| Post-employment benefits | | | 516 | 516 | | | 426 | 426 |

# Note 35. Segment information

## Operating segments

Fluxys group carries out activities in the following operating segments: transmission, storage, and LNG terminalling activities in Belgium, and other activities.

The segment information is based on classification into these operating segments.

Transmission activities comprise all operations subject to the Gas Act related to transmission in Belgium.

Storage activities comprise all operations subject to the Gas Act related to storage in Belgium at Loenhout and Dudzele. With the market no longer expressing any interest, even in the medium term, in booking capacity at the Dudzele LNG storage site, Fluxys decided to discontinue its operations there.

Terminalling activities comprise all activities subject to the Gas Act related to the LNG terminal in Belgium at Zeebrugge.

The segment 'other activities' comprises other services rendered by Fluxys group such as participating in the IZT and ZPT terminals in Belgium[6] chartering an LNG ship, work for third parties and cathodic protection works. The group performed activities relating to management of the Zeebrugge Hub, gas transmission projects outside Belgium (BBL facilities), gas dispatching services and the sale of software solutions until 30 September 2010, when these activities were transferred to Fluxys G and Fluxys Europe as part of the restructuring of the group (see Note 3).

## Basis of accounting relating to transactions between operating segments

Transactions between operating segments mainly relate to capacity reservations by one segment subject to the Gas Act with another.

They are valued on the basis of the regulated tariffs in force.

## Information relating to the main customers

The group's main customers are users of transmission and storage services and of the LNG terminal at Zeebrugge.

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[6] Interconnector Zeebrugge Terminal (IZT) and Zeepipe Terminal (ZPT)

| Segment income statement at 31-12-2010 | | | | | | In thousands of € |
|---|---|---|---|---|---|---|
| | Transmission | Storage | Terminalling | Other activities | Inter-segment transfers | Total |
| Revenue | | | | | | |
| Sales and services to external customers | 410,526 | 90,932 | 93,060 | 63,197 | 0 | 657,715 |
| Transactions with other segments | 765 | 2,508 | 5,022 | 13,431 | -21,726 | 0 |
| Other operating income | 4,636 | 5,352 | 242 | 6,262 | -5,004 | 11,488 |
| Consumables, merchandise and supplies used | -20,843 | -1,285 | -10,108 | -2,080 | 54 | -34,262 |
| Miscellaneous goods and services | -119,655 | -10,828 | -20,645 | -14,639 | 21,676 | -144,091 |
| Employee expenses | -88,674 | -10,743 | -14,024 | -6,440 | 0 | -119,881 |
| Other operating expenses | -4,766 | -31,811 | -2,093 | -495 | 0 | -39,165 |
| Depreciation and amortisation | -83,577 | -6,775 | -19,540 | -5,973 | 0 | -115,865 |
| Provisions for risks and charges | -1,500 | -10,500 | 0 | 6,757 | 5,000 | -243 |
| Impairment losses | 2,008 | 0 | 13 | -23 | 0 | 1,998 |
| | | | | | | |
| **Profit from continuing operations** | **98,920** | **26,850** | **31,927** | **59,997** | **0** | **217,694** |
| | | | | | | |
| Gain/loss from disposal of financial assets | 0 | 0 | 0 | 121,943 | 0 | 121,943 |
| Changes in the fair value of financial instruments | 801 | 0 | 0 | 27 | 0 | 828 |
| Financial income | 906 | 119 | 89 | 17,464 | 0 | 18,578 |
| Financial expenses | -22,114 | -2,912 | -2,440 | -25,262 | 0 | -52,728 |
| | | | | | | |
| **Profit/loss from continuing operations after net financial result** | **78,513** | **24,057** | **29,576** | **174,169** | **0** | **306,315** |
| Income tax expense | | | | | | -58,625 |
| **Profit/loss for the period** | | | | | | **247,690** |

Profit from continuing operations was up on 2009 for activities subject to the Gas Act, mainly in the 'Storage' segment. Revenue from that operating segment reflects the impact of the decision to close the peak-shaving facility in Dudzele. Pursuant to tariff legislation, the decommissioning costs as well as the non-depreciated portion in the tariffs within the decommissioned Regulated Asset Base were booked as regulatory assets (see Note 18).

Profit from activities subject to the Gas Act was also increased by the continuation of the investment programme, which was nevertheless offset by the drop in the authorised return on capital invested in the regulated activities, following the change in the rates of Belgian government bonds (OLOs).

Profit from the 'Other activities' segment was boosted by non-recurring items, namely the gain from the disposal of shareholdings as part of the restructuring of the group (see Note 7a), receipt of the first dividends from Interconnector (UK) Ltd (see Note 7b) and the reversal of a provision (see Note 26).

| Segment balance sheet at 31-12-2010 | | | | | | In thousands of € |
|---|---|---|---|---|---|---|
| | Transmission | Storage | Terminalling | Other activities | Unallocated | Total |
| Property, plant and equipment | 1,728,879 | 203,518 | 398,451 | 113,657 | 0 | 2,444,505 |
| Intangible assets | 294,940 | 369 | 44 | 0 | 0 | 295,353 |
| Goodwill | 0 | 0 | 0 | 0 | 0 | 0 |
| Inventories | 51,525 | 0 | 172 | 205 | 0 | 51,902 |
| Other current financial assets | 0 | 0 | 0 | 24,368 | 0 | 24,368 |
| Financial lease receivables | 0 | 0 | 0 | 29,088 | 0 | 29,088 |
| Net trade receivables | 5,648 | 148 | 201 | 10,978 | 0 | 16,975 |
| Other assets | 0 | 0 | 0 | 0 | 689,542 | 689,542 |
| | | | | | | **3,551,733** |
| | | | | | | |
| Interest-bearing liabilities | 527,292 | 64,340 | 57,064 | 598,984 | 0 | 1,247,680 |
| Other current financial liabilities | 3,005 | 0 | 0 | 0 | 0 | 3,005 |
| Other liabilities | 0 | 0 | 0 | 0 | 2,301,048 | 2,301,048 |
| | | | | | | **3,551,733** |
| | | | | | | |
| Investments in property, plant and equipment for the fiscal year | 308,615 | 45,720 | 7,767 | 30,474 | 0 | 392,576 |
| Investments in intangible assets for the fiscal year | 7,483 | 291 | 36 | 0 | 0 | 7,810 |

| Segment income statement at 31-12-2009 | | | | | | In thousands of € |
|---|---|---|---|---|---|---|
| | Transmission | Storage | Terminalling | Other activities | Inter-segment transfers | Total |
| Revenue | | | | | | |
| Sales and services to external customers | 479,880 | 44,153 | 93,516 | 70,481 | 0 | 688,030 |
| Transactions with other segments | 6,638 | 2,606 | 6,026 | 7,145 | -22,415 | 0 |
| Other operating income | 3,229 | 202 | 301 | 5,128 | -500 | 8,360 |
| Consumables, merchandise and supplies used | -18,410 | -720 | -8,076 | -3,126 | 0 | -30,332 |
| Miscellaneous goods and services | -124,746 | -13,078 | -25,547 | -19,106 | 22,915 | -159,562 |
| Employee expenses | -82,908 | -12,904 | -11,750 | -7,053 | 0 | -114,615 |
| Other operating expenses | -6,715 | -745 | -1,769 | -285 | 0 | -9,514 |
| Depreciation and amortisation | -89,281 | -7,739 | -19,558 | -6,252 | 0 | -122,830 |
| Provisions for risks and charges | -81,522 | 82 | 78 | 3,894 | 0 | -77,468 |
| Impairment losses | -93 | 0 | -13 | -9 | 0 | -115 |
| | | | | | | |
| **Profit from continuing operations** | **86,072** | **11,857** | **33,208** | **50,817** | **0** | **181,954** |
| | | | | | | |
| Gain/loss from disposal of financial assets | | | | 198 | | 198 |
| Changes in the fair value of financial instruments | -473 | | | 1,141 | | 668 |
| Financial income | | | | 11,603 | | 11,603 |
| Financial expenses | -21,242 | -3,131 | -2,694 | -13,487 | | -40,554 |
| | | | | | | |
| **Profit/loss from continuing operations after net financial result** | **64,357** | **8,726** | **30,514** | **50,272** | **0** | **153,869** |
| Income tax expense | | | | | | -48,712 |
| | | | | | | |
| **Profit/loss for the period** | | | | | | **105,157** |

| Segment balance sheet at 31-12-2009 | | | | | | In thousands of € |
|---|---|---|---|---|---|---|
| | Transmission | Storage | Terminalling | Other activities | Unallocated | Total |
| Property, plant and equipment | 1,529,077 | 200,744 | 410,248 | 186,261 | 0 | 2,326,330 |
| Intangible assets | 296,260 | 213 | 12 | 0 | 0 | 296,485 |
| Goodwill | 0 | 0 | 0 | 3,465 | 0 | 3,465 |
| Inventories | 67,689 | 0 | 157 | 5 | 0 | 67,851 |
| Other current financial assets | 27 | 0 | 0 | 23,223 | 0 | 23,250 |
| Financial lease receivables | 0 | 0 | 0 | 30,483 | 0 | 30,483 |
| Net trade receivables | 13,404 | 77 | 677 | 7,211 | 0 | 21,369 |
| Other assets | 0 | 0 | 0 | 0 | 674,932 | 674,932 |
| | | | | | | **3,444,165** |
| | | | | | | |
| Interest-bearing liabilities | 573,922 | 84,594 | 99,666 | 364,396 | 0 | 1,122,578 |
| Other current financial liabilities | 3,806 | 0 | 0 | 0 | 0 | 3,806 |
| Other liabilities | 0 | 0 | 0 | 0 | 2,317,781 | 2,317,781 |
| | | | | | | **3,444,165** |
| | | | | | | |
| Investments in property, plant and equipment for the fiscal year | 182,728 | 37,595 | 4,402 | 1,923 | 0 | 226,648 |
| Investments in intangible assets for the fiscal year | 10,423 | 0 | 0 | 0 | 0 | 10,423 |

## Note 36. Directors’ and senior executives’ remuneration

Pursuant to Article 11 of the Articles of Association, the Board of Directors of Fluxys SA comprises at least three and no more than 24 non-executive directors. A representative of the federal government also attends the meetings of the Board of Directors and the Strategic Committee.

The General Meeting of 8 May 2007 decided to bring the total maximum fees of the directors and government representative to €360,000 per annum indexed. As from 1 January 2006, the directors and government representative also receive an attendance fee.

Pursuant to Article 17.5 of the Articles of Association of Fluxys, the Board of Directors is authorised to pay a special remuneration to directors who carry out special duties for the company. The Board also has the right to reimburse travel expenses and costs incurred by the members of the Board of Directors.

The Fluxys group has not granted any loans to directors; in addition, the directors have not entered into unusual or abnormal transactions with the group.

For further information, the reader should refer to the Corporate Governance Declaration in the management report and to Note 34 Related Parties for the breakdown of remuneration by category.

## Note 37. Subsequent events

There have been no subsequent events with a material impact on the financial statements.

# IV. Statutory auditor's report to the shareholders' meeting on the consolidated financial statements for the year ended 31 December 2010

To the shareholders

As required by law and the company's articles of association, we are pleased to report to you on the audit assignment which you have entrusted to us. This report includes our opinion on the consolidated financial statements together with the required additional comment.

### Unqualified audit opinion on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Fluxys NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. Those consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of 3.551.733 (000) EUR and the consolidated income statement shows a consolidated profit (group share) for the year then ended of 247.355 (000) EUR.

The board of directors of the company is responsible for the preparation of the consolidated financial statements. This responsibility includes among other things: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with legal requirements and auditing standards applicable in Belgium, as issued by the "Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. We have assessed the basis of the accounting policies used, the reasonableness of accounting estimates made by the company and the presentation of the consolidated financial statements, taken as a whole. Finally, the board of directors and responsible officers of the company have replied to all our requests for explanations and information. We believe that the audit evidence we have obtained provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements give a true and fair view of the group's financial position as of 31 December 2010, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU and with the legal and regulatory requirements applicable in Belgium.

### Additional comment

The preparation and the assessment of the information that should be included in the directors' report on the consolidated financial statements are the responsibility of the board of directors.

Our responsibility is to include in our report the following additional comment which does not change the scope of our audit opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law and is in agreement with the consolidated financial statements. However, we are unable to express an opinion on the description of the principal risks and uncertainties confronting the group, or on the status, future evolution, or significant influence of certain factors on its future development. We can, nevertheless, confirm that the information given is not in obvious contradiction with any information obtained in the context of our appointment.

Antwerp, 17 March 2011
The statutory auditor
DELOITTE Bedrijfsrevisoren/Réviseurs d'Entreprises
BV o.v.v.e. CVBA /SC s.f.d. SCRL
Represented by Jurgen Kesselaers

# STATUTORY ACCOUNTS OF FLUXYS SA UNDER BELGIAN GAAP

# 4 STATUTORY ACCOUNTS OF FLUXYS SA UNDER BELGIAN GAAP



Given the significance of the equity as well as the revenue of the parent company in the consolidated financial statements, the publication of the detailed version of the annual accounts and the notes to the accounts in this brochure would, in the majority of the cases, be redundant given the explanations found in the consolidated accounts.

Pursuant to Article 105 of the Companies Code, it has therefore been decided to present an abridged version of the annual accounts of Fluxys SA.

The Statutory Auditor issued an unqualified audit opinion on the annual accounts of Fluxys SA.

These documents have been deposited with the National Bank of Belgium and are available upon request at the following address:

**Fluxys SA**
Communication Department
Avenue des Arts 31, 1040 Brussels - Belgium

# I. Balance

| Assets | | In thousands of € |
|---|---|---|
| | 31-12-2010 | 31-12-2009 |
| **Fixed assets** | **2,352,577** | **2,204,142** |
| Formation expenses | 667 | 801 |
| Intangible fixed assets | 201,167 | 202,331 |
| Tangible fixed assets | 1,982,810 | 1,750,023 |
| Financial fixed assets | 167,933 | 250,987 |
| **Current assets** | **566,434** | **606,846** |
| Amounts receivable after more than one year | 9,616 | 48,063 |
| Stock and contracts in progress | 51,726 | 67,689 |
| Amounts receivable within one year | 59,261 | 62,930 |
| Current investments | 1,165 | 417,053 |
| Cash at bank and in hand | 389,347 | 475 |
| Deferred charges and accrued income | 55,319 | 10,636 |
| **Total** | **2,919,011** | **2,810,988** |

| Equity and liabilities | | In thousands of € |
|---|---|---|
| | 31-12-2010 | 31-12-2009 |
| **Equity** | **1,334,007** | **1,387,407** |
| Capital | 60,272 | 60,272 |
| Share premium account | 38 | 38 |
| Revaluation surpluses | 764,597 | 837,305 |
| Reserves | 433,223 | 433,223 |
| Accumulated profits | 53,151 | 56,569 |
| Capital subsidies | 22,726 | 0 |
| **Provisions and deferred taxes** | **232,845** | **214,736** |
| Provisions for risks and charges | 219,443 | 213,037 |
| Deferred taxes | 13,402 | 1,699 |
| **Amounts payable** | **1,352,159** | **1,208,845** |
| Amounts payable after more than one year | 865,015 | 818,331 |
| Amounts payable within one year | 325,008 | 238,791 |
| Deferred charges and accrued income | 162,136 | 151,723 |
| **Total** | **2,919,011** | **2,810,988** |

# II. Income statement

| Income statement | | In thousands of € |
|---|---|---|
| | 31-12-2010 | 31-12-2009 |
| Operating income | 631,390 | 591,036 |
| Operating charges | 461,928 | 477,266 |
| **Operating profit** | **169,462** | **113,770** |
| | | |
| Financial income | 44,711 | 29,209 |
| Financial charges | 42,100 | 28,932 |
| **Net financial income** | **2,611** | **277** |
| | | |
| **Profit on ordinary activities before taxes** | **172,073** | **114,047** |
| | | |
| Extraordinary income | 160,296 | 3,144 |
| Extraordinary charges | 878 | 2,084 |
| **Net extraordinary income / (expense)** | **159,418** | **1,060** |
| | | |
| **Profit for the period before taxes** | **331,491** | **115,107** |
| | | |
| **Income taxes** | **-63,736** | **-49,169** |
| | | |
| **Profit for the period** | **267,755** | **65,938** |
| | | |
| **Transfer to untaxed reserves** | **0** | **-3,301** |
| | | |
| **Profit for the period available for appropriation** | **267,755** | **62,637** |

# III. Appropriation account

| Appropriation account | In thousands of € | |
|---|---|---|
| | 31-12-2010 | 31-12-2009 |
| **Profit to be appropriated** | **324,324** | **105,753** |
| Profit for the period available for appropriation | 267,755 | 62,637 |
| Profit carried forward from the previous period | 56,569 | 43,116 |
| | | |
| **Transfer from equity** | **43,608** | **0** |
| From reserves | 43,608 | 0 |
| | | |
| **Transfer to equity** | **0** | **0** |
| To the legal reserve | 0 | 0 |
| To the other reserves | 0 | 0 |
| | | |
| **Result to be carried forward** | **53,151** | **56,569** |
| Profit to be carried forward | 53,151 | 56,569 |
| | | |
| **Profit to be distributed** | **314,781** | **49,184** |
| Dividends | 314,781 | 49,184 |
| | | |
| If the above proposal is accepted and taking tax requirements into account, the annual dividend, net of withholding tax, will be: | 336.00€ | 52.50€ |

In December 2010 an interim dividend of €228 (€171 net) was distributed. The balance of €220 (€165 net) will be paid out as from 19 May 2011.

# IV. Capital at the end of the period

| Capital at the end of the period | |
|---|---|
| | 31-12-2010 |
| **Subscribed capital (in thousands of €)** | |
| At the end of the previous period | 60,272 |
| At the end of the period | 60,272 |
| | |
| **Capital represented by** | |
| Registered shares | 622,033 |
| Dematerialised shares | 74,409 |
| Bearer shares | 6,194 |

**Shareholder structure**

| Declarant | Date of declaration | Share category | Number of voting rights declared | % |
|---|---|---|---|---|
| Fluxys G | 10-09-2010 | B/D | 632,171 | 89.97 |

The Belgian State holds one specific share.

# V. Income taxes

| Income taxes | In thousands of € |
|---|---|
| | **31-12-2010** |
| **Breakdown of heading 670/3*** | |
| **Income taxes on the result of the current period** | **63,778** |
| Taxes and withholding taxes due or paid | 55,358 |
| Excess of income tax prepayments | 0 |
| Estimated additional taxes | 8,420 |
| **Income taxes on previous periods** | **19** |
| Additional taxes due or paid | 19 |
| Additional taxes (estimated or provided for) | 0 |
| | |
| **Reconciliation between profit before taxes and estimated taxable profit** | |
| **Profit before taxes** | **331,491** |
| **Permanent differences:** | **-143,852** |
| Definitively taxed income | -36,065 |
| Non-deductible expenses | 4,000 |
| Taxable reserves | 47,751 |
| Depreciation of financial fixed assets | 758 |
| Gains on disposal of fixed assets | -160,296 |
| | |
| **Total** | **187,639** |

** The regularisation of taxes (accounts 77) for an amount of €61 thousand in 2010 is not registered in this item.*

# VI. Workforce

ONSS N°: 030012851238
Joint Commission N°: 326

## 1. Headcount

### A. Employees recorded in the personnel register

| 1. During the year and the previous year | Full time 2010 | Part time 2010 | Total 2010 | Total 2009 |
|---|---|---|---|---|
| Average number of employees | 967.1 | 83.7 | 1,030.25* | 1,008.47* |
| Actual number of hours worked | 1,443,088.41 | 95,717.10 | 1,538,805.51 | 1,512,326.68 |
| Personnel costs | 106,017,638.61 | 6,380,929.13 | 112,398,567.74 | 107,387,847.91 |
| Benefits provided in addition to salary | | | 1,931,581.48 | 1,642,522.18 |

| 2. At the year end | Full time | Part time | Total FTE* |
|---|---|---|---|
| **a.** Number of employees recorded in the personnel register | 965 | 81 | 1,026.01 |
| **b.** By contract type | | | |
| Permanent | 933 | 81 | 994.01 |
| Fixed term | 32 | 0 | 32.00 |
| Contract | 0 | 0 | 0.00 |
| Replacement | 0 | 0 | 0.00 |
| **c.** By gender and by level of education | | | |
| Men | 798 | 30 | 821.40 |
| Primary | 2 | 0 | 2.00 |
| Secondary | 355 | 16 | 367.20 |
| Higher non-university | 325 | 11 | 333.80 |
| University | 116 | 3 | 118.40 |
| Women | 167 | 51 | 204.61 |
| Primary | 0 | 0 | 0.00 |
| Secondary | 40 | 13 | 49.53 |
| Higher non-university | 90 | 32 | 113.58 |
| University | 37 | 6 | 41.50 |
| **d.** By professional category | | | |
| Executives | 307 | 11 | 315.80 |
| Staff | 658 | 70 | 710.21 |
| Workers | 0 | 0 | 0.00 |
| Other | 0 | 0 | 0.00 |

** Full time equivalents*

### B. Interim staff and persons made available to the business

| During the year | Interim staff | Persons made available to the business |
|---|---|---|
| Average number of persons employed | 12.71 | 0.00 |
| Actual number of hours worked | 25,128.91 | 0.00 |
| Cost to the business | 781,080.49 | 0.00 |

## 2. Table of movements in personnel during the year

| | Full time | Part time | Total FTE* |
|---|---|---|---|
| **Additions** | | | |
| **a.** Number of employees recorded in the personnel register during the year | 84 | 1 | 84.80 |
| **b.** By contract type | | | |
| Permanent | 33 | 2 | 33.80 |
| Fixed term | 51 | 1 | 51.00 |
| Contract | 0 | 0 | 0.00 |
| Replacement | 0 | 0 | 0.00 |
| **Deductions** | | | |
| **a.** Number of employees whose date of leaving is recorded in the personnel register during the year | 98 | 0 | 98.00 |
| **b.** By contract type | | | |
| Permanent | 47 | 0 | 47.00 |
| Fixed term | 51 | 0 | 51.00 |
| Contract | 0 | 0 | 0.00 |
| Replacement | 0 | 0 | 0.00 |
| **c.** Reasons for leaving | | | |
| Pension | 15 | 0 | 15.00 |
| Early pension | 0 | 0 | 0.00 |
| Dismissed | 5 | 0 | 5.00 |
| Other | 78 | 0 | 78.00 |
| Including: the number of persons who continue, at least part-time, to provide services to the business as contractors | 0 | 0 | 0.00 |

** Full time equivalents*

## 3. Information on workers training during the year

| | Men | Women |
|---|---|---|
| **Initiatives of formal continuing professional training paid for by the employer** | | |
| Number of workers concerned | 796.00 | 171.00 |
| Number of training hours | 33,735.18 | 4,415.70 |
| Cost to the business | 2,989,792.36 | 375,938.71 |
| Of which gross cost directly related to training | 2,989,792.36 | 375,938.71 |
| Of which fees paid and contributions to group funds | 0.00 | 0.00 |
| Of which grants and other financial advantages received (to be deducted) | 0.00 | 0.00 |
| **Initiatives of less formal or informal continuing professional training paid for by the employer** | | |
| Number of workers concerned | 386.00 | 72.00 |
| Number of training hours | 2,356.10 | 495.20 |
| Cost to the business | 161,111.18 | 30,035.04 |
| **Initiatives of initial professional training paid for by the employer** | | |
| Number of workers concerned | 0.00 | 0.00 |
| Number of training hours | 0.00 | 0.00 |
| Cost to the business | 0.00 | 0.00 |

Questions regarding financial
and accounting data

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FLUXYS

EXCELLENCE IN GAS TRANSPORT