



ANNUAL
FINANCIAL
REPORT
2013



FLUXYS BELGIUM

ANNUAL REPORT



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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 2013 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 2013.

Declaration regarding the financial year closed on 31 December 2013

We hereby attest that to our knowledge:

- Fluxys Belgium's financial statements, drawn up in accordance with the applicable accounting standards, give a true and fair view of the company's assets, liabilities, financial position and profit or loss and those of the companies included in the consolidation scope;
- the annual report gives a fair review of the development and performance of the business and of the position of the company itself and of the companies included in the consolidation scope, together with a description of the principal risks and uncertainties that they face.

Brussels, 19 March 2014

Paul Tummers
Member of the Executive Board
Chief Financial Officer

Walter Peeraer
Chairman of the Executive Board
Chief Executive Officer

1.1. Key events

Customers satisfied with reliability and flexibility of entry/exit system

After one year of working with the new entry/exit system, the overall assessment is positive. Fluxys Belgium undertook a customer survey during the year and satisfaction was the recurring theme. The flexible use of capacity is a big plus for customers and the reliability of the IT system, which includes hourly updated balancing data, is particularly appreciated. Market-based grid balancing is also fully meeting expectations, and the availability and attentiveness of the sales teams were rated highly.

Peak in sale of short-term capacity

Thanks to the flexibility of the new entry/exit-system, customers can make very agile use of capacity in the Belgian grid when neighbouring countries experience unexpected peaks in demand. In March 2013, for example, Fluxys Belgium sold record quantities of short-term capacity for transporting natural gas to the United Kingdom, which was facing a shortage at that time. In late May, early June there was high demand for short-term capacity to Germany. Fluxys Belgium traded part of the short-term capacity sold in 2013 through auctions on the European capacity platform Prisma.

Further liquidity growth at ZTP and Zeebrugge Beach

Favourable liquidity growth at ZTP and Zeebrugge Beach made 2013 a record year in terms of the quantities traded at gas trading places in Belgium. Although volumes at ZTP are modest compared with neighbouring gas trading places, we are seeing a steady increase in market interest and ZTP's potential is borne out by the growing number of producers, traders and consumers active at the trading point.

Rapidly expanding market for natural gas as a transport fuel

With an emission profile that outperforms other fossil fuels in all areas, natural gas has a very promising future as a fuel for transport. Fluxys Belgium was active on various fronts in 2013 with a view to developing this market and all the evidence suggests that it is on the up. There was considerable interest in natural gas-powered cars at the Brussels Motor Show in early 2014, and a record number of trucks loaded at the Zeebrugge LNG terminal to supply, for example, filling stations for LNG-powered trucks and to supply natural gas to industrial sites as far away as Spain, Germany and Poland. A milestone was reached with the Fluxys group's decision to invest in the construction of an LNG filling station in Veurne for haulage company Eric Mattheeuws. In shipping, too, there is growing interest in LNG and the Fluxys group is working with the various port authorities to ascertain the investments needed to develop LNG as a shipping fuel in Belgian ports.

Flows from France: Dunkirk-Zeebrugge project takes shape

Fluxys Belgium and French transmission system operator GRTgaz are working on new capacity to connect the Dunkirk LNG terminal with the Zeebrugge area. This will enable natural gas to flow physically from France to Belgium for the first time. GRTgaz will lay a pipeline to the Franco-Belgian border while Fluxys Belgium will build a new interconnection point at Alveringem and lay a pipeline from there to Maldegem. The pipeline will link up with the east-west transmission axis through Belgium, enabling grid users to forward their gas to European markets.

Fluxys Belgium plans to successfully complete the permit procedures for the Alveringem-Maldegem pipeline by the end of 2014 so that construction can begin in spring 2015 and the infrastructure will be ready for commissioning at the same time as the Dunkirk LNG terminal. On 28 February 2014, the Flemish government enacted the regional land-use plan for the pipeline between Alveringem and Maldegem.

Flows from Italy: new market consultation in summer 2014

Fluxys Belgium, FluxSwiss, Fluxys TENP and Italian system operator Snam Rete Gas are joining forces on a project to offer transmission services from Italy, via Switzerland, to France, Germany and Belgium. Currently, gas can only flow from north to south on this route. Creating transmission capacity in the opposite direction will strengthen security of supply as it will create additional supply opportunities from Italy to North-West Europe. It will also boost market liquidity by completely linking up gas trading places in Italy, Germany, Belgium and the United Kingdom. Despite strong market interest during an initial consultation, the process has been put on hold due to uncertainties over the impact in Germany of odorised gas from the French grid, among other factors. The intention is to hold another market consultation in summer 2014.

Historically low interest rates affect net result

Operating profit from regulated activities (transmission, storage and LNG terminalling) is primarily determined by invested equity, the financial structure and interest rates (10-year linear bonds issued by the Belgian State, or OLOs). These interest rates have been on a downward trend for the past two years: the average interest rate in 2013 was 2.43%, lower still than in 2012 (2.98%). The fact that the OLOs were so low in 2013 had a negative impact of €8.4 million on net profit.

Regulated dossiers submitted successfully to CREG

A number of dossiers relating to our regulated activities transmission, storage and LNG terminalling were approved by CREG, in particular the new LNG truck loading services, the implementation of European rules on congestion management, adaptations to our service offer via the European capacity platform PRISMA as well as the overhaul of our conversion services. In addition, discussions began with CREG to reach a decision on the tariff methodology. Following bilateral discussions between Fluxys and CREG, the latter will draw up a new draft tariff methodology this summer for which a public consultation will be held in September. CREG will submit the draft tariff methodology and the consultation report to the Belgian parliament with a view to publishing the new tariff methodology in late 2014. Among other things, this methodology will serve as the basis for drawing up our 2016-2019 tariffs in 2015.

€101 million invested

Fluxys Belgium invested €101 million in 2013. The biggest projects were the pipeline replacement between Ben Ahin and Bras with a new pipeline of a larger diameter (with the new pipeline being commissioned in September 2013) and the construction of a second jetty at the Zeebrugge LNG terminal (which is progressing according to schedule).

Between 2009 and 2013, the company invested €1 billion in its infrastructure to further develop Belgium's role as an international crossroads, strengthen the country's security of supply and pave the way for further improvements in market liquidity. 2010 and 2011 were record years in this respect, and the company is now returning to a normal level of investment.

Good neighbours working together: successful information campaign for municipalities

Good cooperation between municipalities, police, fire brigades, contractors, local residents and Fluxys Belgium is the best way of ensuring safe operation of our infrastructure. That is why, following the 2012 municipal elections, Fluxys Belgium organised information sessions for all municipalities in which we have or are planning facilities. The sessions held in 2013 once again focused on safety and were well attended, with a turnout of around 500.

Fewer occupational accidents thanks to company-wide safety awareness project

In 2013, Fluxys Belgium and its subsidiary Fluxys LNG saw a dramatic drop in both the number of occupational accidents resulting in time off work and the number of days off work due to such accidents. This was the result of concerted efforts in the field of prevention. The SOUL project (Safety, Ownership, Human skills, Leadership) is being implemented company-wide to continuously improve safety awareness. The aim is obviously to continue the positive trend recorded in 2013.

1.2. Strong human capital

Staff trends

Fluxys Belgium's 1,026 employees contributed their expertise in various fields to the company in 2013. Fluxys Belgium and Fluxys LNG took on 21 new staff members in 2013 with a view to strengthening the organisation and replacing retiring employees.

Fluxys Belgium is keen to offer its staff dynamic career prospects and encourages job mobility. These opportunities for mobility motivate our employees.

Fluxys Belgium is investing more than ever before in its employees' knowledge. The number of hours of training rose from 39,931 in 2012 to 47,944 in 2013, with a particularly sharp increase in training hours on safety and technical subjects. A number of intensive information sessions and training courses on specific topics are offered to enhance self-knowledge and develop behavioural skills and cross-company working.

A total of 651 employees sign up for parent company shareholding plan

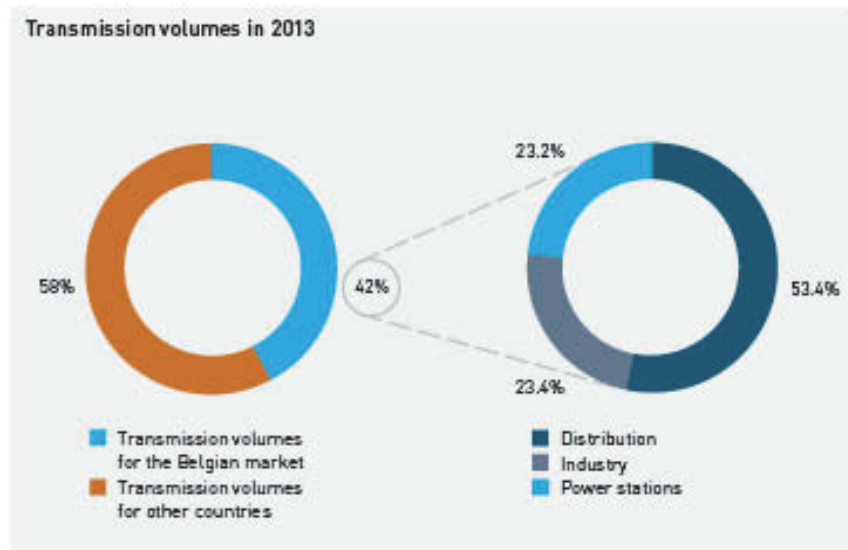
In November 2012 and again in February 2013, Fluxys group staff and management had an opportunity to become shareholders. A large proportion of employees and management in Belgium, France, the United Kingdom, Germany and Switzerland took part in the plan. The shareholding plan gives employees the opportunity to help lay the foundations for the group's growth potential and allows them to prove their commitment to and faith in Fluxys.

1.3. Activities

1.3.1. Transmission

Increase in pipeline transmission and sales of transmission capacity

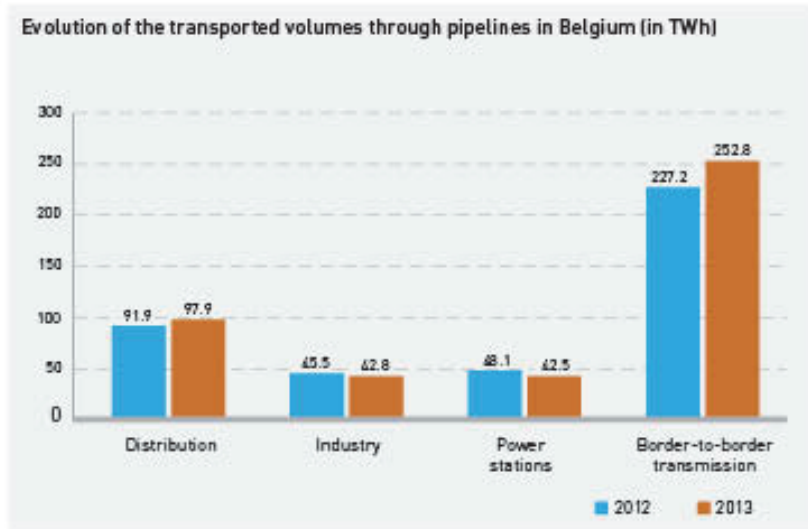
In 2013, Fluxys Belgium recorded an increase in the amount of transmission capacity sold due to active marketing of short-term products, including its offering of bundled capacity products on the Prisma platform. Transmission volumes also rose (by 6.2%).



Volumes transmitted for the Belgian market remain stable. Upon closer inspection of energy transported for consumption on the Belgian market (183.2 TWh, compared with 185.6 TWh in 2012), it is striking that offtake for distribution rose by 6.5%, while offtake by power stations fell by 11.7%.

- Distribution system operators, which supply natural gas to SMEs and households, drew 6.5% more gas from the Fluxys Belgium grid. This increase was a result of higher consumption during the prolonged period of cold weather in the first half of the year

- and the increase in the number of domestic and SME connections to the distribution system.
- The power stations consumed 11.7% less natural gas, primarily due to the combined effect of low coal prices, the floor price for CO₂ emission allowances and the negative spark spread (the price of natural gas in relation to the market price for electricity) for natural gas, all of which put power generation with coal at an advantage in Europe. At the same time, renewable energy's share in the energy mix grew and the nuclear facilities which had been shut down started operating again. Some power plants were decommissioned temporarily and others permanently.
 - Industrial companies directly connected to the Fluxys Belgium grid consumed less natural gas in 2013 than in 2012 (down 5.8%). This fall was due to the continuing impact of the financial and economic crisis, which saw a number of industrial sites cease operating.



Volumes transmitted to other countries. At 252.8 TWh, volumes transmitted abroad rose significantly in 2013, up by 11.3% compared with 2012.

- Unlike in previous years, large volumes were transmitted to the United Kingdom in March 2013 (see below).
- In addition, demand for short-term capacity to Germany peaked in late May and early June and sales of capacity via the Prisma platform rose.
- Finally, for the period 1 October 2012 – 30 September 2013 an exceptionally large amount of short-term capacity was sold from the Zelzate entry point to the Zeebrugge exit point to players using the Belgian grid to transport natural gas from the Dutch market to the UK market.

Natural gas transmission to the UK peaks in March. Normally at the end of winter, natural gas flows from the United Kingdom to the continent. However, unlike in previous years, in March 2013 Fluxys transported peak flows of natural gas in Belgium in the other direction. This was owing to a combination of circumstances at that time:

- The UK, like surrounding countries, also experienced a long, hard winter, which led to a correspondingly high demand for natural gas.
- As a result, natural gas levels in UK storage facilities at the end of the winter were low and not enough gas was available for withdrawal.
- At the same time, little liquefied gas was being shipped to the UK. This reflects the situation across Europe, which has seen a reduction in LNG imports since 2012 due to higher LNG prices on Asian and South American markets.
- Finally, a number of natural gas sources were unavailable to the UK market due to maintenance work.

Over 2013 as a whole, Belgium also became a net exporter of natural gas to the United Kingdom: whereas in 2012 Belgium imported a net total of 35.6 TWh of natural gas from the British Isles, last year it exported a net total of 8.3 TWh to the UK.

Liquidity growth on the capacity market

Sharp increase in natural gas trading at ZTP and Zeebrugge Beach. A total volume of 771 TWh was traded at Zeebrugge Beach and ZTP in 2013, an increase of almost 3% compared with 2012 and the biggest annual volume ever traded. A total of 52 companies are active at Zeebrugge Beach, trading an average 2 TWh of natural gas daily. After a promising start in late 2012, ZTP confirmed its attractiveness as a trading point in 2013 with:

- a community of 25 actively participating companies from a variety of market segments (producers, consumers and traders);
- a gradual increase in traded volumes in 2013, with an average daily traded volume of 335 GWh at the start of 2014.

Fluxys Belgium offers capacity on the Prisma platform for the first time. Fluxys Belgium is one of the founders of the PRISMA European Capacity Platform, a major step towards an integrated European gas market. The platform brings together the gas markets of eight different countries at the heart of Europe and operates in accordance with the capacity allocation mechanisms set out in the corresponding European network code. It was on 17 April 2013 that Fluxys Belgium offered products on the Prisma platform for the first time. These were cross-border day-ahead capacity products with system operators from neighbouring countries. In 2013, Fluxys Belgium sold a total of almost 28 GWh of bundled day-ahead capacity at 61 auctions.

Since February 2014, Fluxys Belgium and Dutch transmission system operator Gasunie Transport Services have been auctioning additional bundled day-ahead capacity as well as bundled monthly capacity at their interconnection points. Bundled quarterly capacity will follow in June 2014.

New initiatives to boost liquidity further. Fluxys Belgium is working on a number of initiatives to further increase liquidity on the markets. For example, from mid-2014 traders at the Belgian gas trading places ZTP and Zeebrugge Beach will be able to carry out their transactions via the PEGAS (Pan-European Gas Cooperation) gas platform. With a current membership of 140, PEGAS will significantly boost transactions at the Belgian gas trading places.

Fluxys Belgium is also working with Interconnector (UK) Ltd to examine how to merge the Interconnector and Zeebrugge Beach trading areas by the end of 2015. The new concept would see Zeebrugge Beach become a virtual trading place. It would also create a strong link between the UK, Belgian and Dutch trading areas and enable the European network codes to be implemented at Interconnector.

New European network codes

As the Belgian transmission system operator, Fluxys Belgium is committed to achieving an integrated European natural gas market. To this end, the company works closely with other transmission system operators on specific projects. At the same time, Fluxys Belgium is active at an overarching level with a view to achieving maximum harmonisation of approach within Europe, for example within the European Network of Transmission System Operators for Gas (ENTSOG). Fluxys is a founding member of ENTSOG and Walter Peeraer, CEO and Chairman of the Executive Board of Fluxys Belgium, is a member of the ENTSOG Board.

Within ENTSOG, Europe's transmission system operators are working on harmonised rules – known as the network codes – in 12 different areas, with an eye to the third package of European legislative measures on energy. Each of the network codes is based on framework guidelines compiled by the Agency for the Cooperation of Energy Regulators (ACER). A network code gains force of law as soon as it is approved by the relevant European bodies.

Following the approval of the first Network Code on Capacity Allocation Mechanisms for existing capacity in 2012, ENTSOG published the final version of the Balancing Network Code in November 2013. Fluxys Belgium had already anticipated the balancing rules with the introduction of its full entry/exit system in late 2012. In December 2013, ENTSOG submitted a new version of the Network Code on Interoperability and Data Exchange Rules to ACER. In addition, in late 2013 the European Commission invited ENTSOG to draft a network code on rules regarding harmonised transmission tariff structures for gas. ENTSOG has been given until the end of 2014 to submit a proposal to ACER. Alongside this, ENTSOG has also been tasked with devising a network code on capacity allocation mechanisms for new capacity in 2014.

1.3.2. Storage

Market demand for storage under heavy pressure

There is currently a relative oversupply of storage possibilities in Europe. In addition to this, stagnating demand for natural gas is creating an oversupply of natural gas at gas trading places, which in turn means that price differences between summer and winter are very small. Fluxys Belgium's storage activity in Belgium is also in competition with non-regulated storage services elsewhere in Europe.

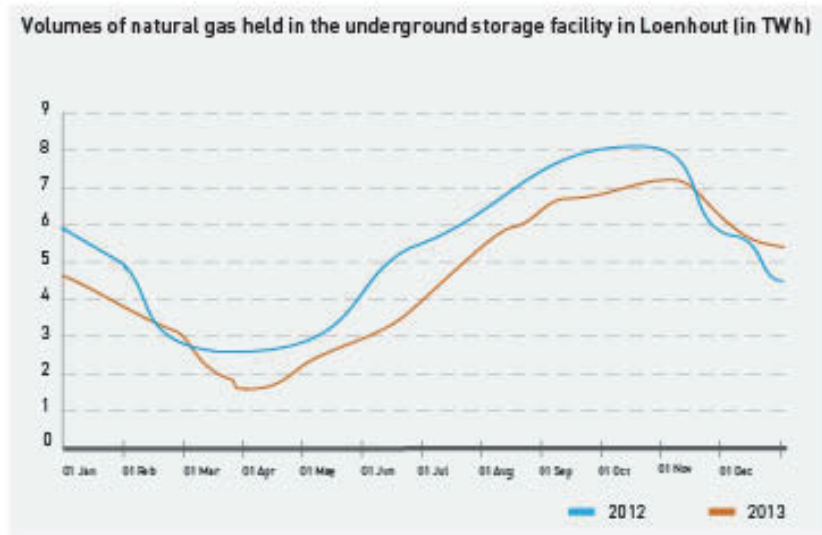
Part of the storage services at Loenhout have been sold on a long-term basis: over 70% of storage capacity has been sold on a long-term basis up to 2016, and almost 60% after 2016. Yearly storage services are facing particularly stiff competition. Nevertheless, Fluxys Belgium managed to achieve a very good sales figure for storage year 2013-2014 compared with other storage sites, with virtually all yearly capacity having been sold, partly thanks to an updated service offering. For storage year 2014-2015, storage services are in a particularly difficult competitive situation. Fluxys Belgium is therefore working hard to tailor its products to market demand as much as possible:

- It has submitted a proposal to CREG to reduce the transmission costs associated with reserving storage capacity by almost 28%.

- For the remaining capacity, storage users can contact Fluxys for customised storage services. Fluxys Belgium will then examine in consultation with the regulator how storage services can meet their needs.
- Finally, Fluxys Belgium is working to further optimise the costs of its storage facility, to ensure that storage tariffs remain competitive.

Shifts in the utilisation curve

The Loenhout storage facility was less full at the start of 2013 than the year before. This was owing to the cold weather at the end of 2012, which resulted in more natural gas being withdrawn from the facility. The cold temperatures persisted long into 2013, resulting in a faster withdrawal of gas from the Loenhout facility in March and April 2013 compared with the same period the previous year. However, the rate of withdrawal at the end of the year was slower due to the mild weather.

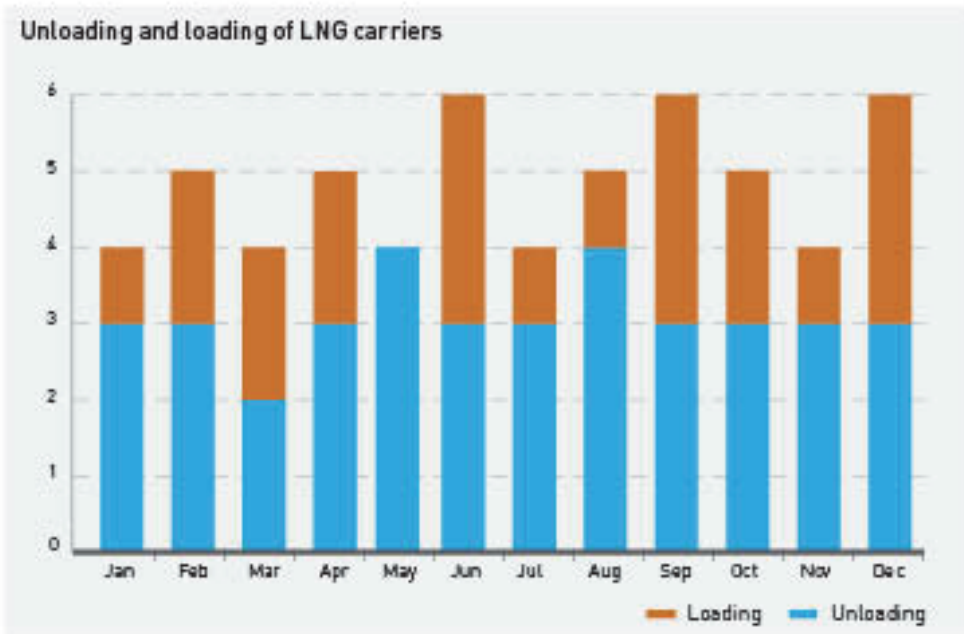


1.3.3. LNG terminalling

High utilisation rate

37 LNG carriers unloaded. 37 LNG carriers unloaded at Zeebrugge in 2013, compared with 46 in 2012. The 37 carriers unloaded a total of 2.2 million tonnes of LNG, mainly from Ras Laffan, Qatar. Seven of the 37 ships were Q-Flex carriers, which are among the largest LNG vessels in the world. A total of 1,351 ships unloaded at the LNG terminal between the start of commercial activities in 1987 and the end of 2013.

21 LNG carriers loaded. The high level of natural gas supply in Europe combined with high demand for natural gas in South America and Asia have resulted in heavy demand for loading services at the terminal over the past two years, with 21 carriers loading in 2013 and 25 in 2012. The 21 vessels that berthed for loading in 2013 took on board a total of 1.1 million tonnes of LNG.



Additional slots sold. 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 unloadings, Fluxys Belgium may offer an additional slot on the primary market during that available period. In 2013, 19 additional slots were created and offered in this way. Of these, one complete slot and five slot components were sold.

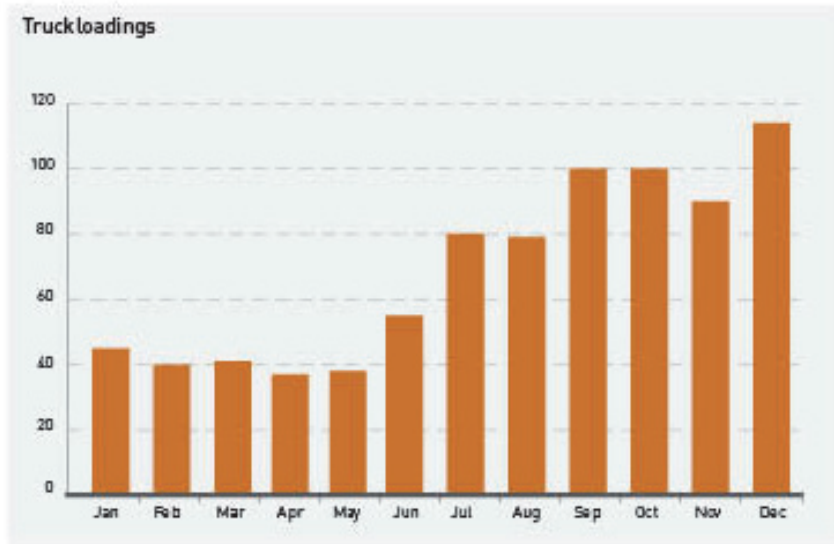
Slots on the secondary market. If LNG terminal users do not use slots on the primary market reserved for them under their respective contracts, those slots are made available on the secondary market. In 2013, 64 slots were offered for sale on the secondary market. Of these, 15 slot components were sold.

Developing the terminal as a hub for small-scale LNG use

819 truck loadings: a big success. Since June 2010, trucks as well as ships have been able to load at the Zeebrugge LNG terminal. LNG transport by road is a new and highly promising activity which supports the use of natural gas in a broad range of applications:

- supplying industrial sites in Europe where pipeline supplies are not available;
- supplying LNG-fuelled ships;
- supplying filling stations for trucks that run on LNG.

The market for small-scale LNG use is clearly gaining momentum: a total of 819 trucks were loaded with LNG in 2013, compared with just 316 in 2012. December 2013 was an all-time record month, with no fewer than 114 LNG trucks loaded. Most of the LNG was bound for the Netherlands, France, the UK, Germany, Scandinavia, Switzerland and Poland, where the market for LNG as a fuel in transport is strongly developing.



2014 also promises to be a strong year. A total of 3,600 slots were booked by haulage companies during the October-November subscription window, with 1,847 loadings scheduled for 2014.

Ship bunkering possible at second jetty. A second jetty is being built at the LNG terminal. It will be commissioned in 2015 and small LNG bunker ships will also be able to berth there to load LNG (from 2,000 cubic metres). Bunker ships supply other vessels running on LNG or LNG bunker terminals at other ports.

LNG from Zeebrugge terminal for ship in Antwerp. In December 2012 and January 2013, the *Argonon* refuelled with LNG at the Port of Antwerp, becoming the first ship to be supplied with LNG by truck at a Belgian port. The LNG was supplied from the Fluxys terminal in Zeebrugge. The *Argonon* is a bunker ship that supplies other vessels with fuel (fuel oil or diesel) in both Rotterdam and Antwerp.

Supplying ships with LNG fits with Fluxys' vision to prioritise the use of natural gas as an environmentally friendly fuel for ships, trucks and cars.

1.3.4. Natural gas as a fuel for transport: market expanding rapidly

Natural gas: cutting emissions immediately. Fluxys Belgium was active on various fronts in 2013 to promote natural gas as a fuel for transport and to boost this highly promising but still emerging market. The advantages of natural gas are beyond dispute. After all, switching from petrol, diesel or heavy fuel oil to natural gas directly reduces CO₂ emissions and also has an immediate impact on air quality and the health effects linked to it: combustion of natural gas emits significantly lower quantities of nitrogen oxides, and the amounts of sulphur and fine particles released are negligible. An additional advantage of natural gas combustion is that it uses tried-and-tested technology that has already demonstrated its suitability.

The challenge is to develop the necessary infrastructure so that cars, trucks and ships can fill up with natural gas easily. At the moment the market faces a chicken-or-egg situation: investments are not forthcoming because there are not yet enough ships or vehicles, and potential users are putting off switching to natural gas due to the lack of refuelling infrastructure. The Fluxys group wishes to help break this market stalemate by investing in refuelling infrastructure based on a sound business case. The company seeks partners for this where appropriate.

Ships: developing an LNG bunker chain. Thanks to its low emission values, liquefied natural gas (LNG) is a particularly good alternative fuel for ships, especially when stricter sulphur emission standards come into force for the English Channel, the North Sea and the Baltic Sea (SECA) in 2015. If shipping companies use 7 million tonnes of LNG as a fuel by 2030 instead of an equivalent amount of heavy fuel oil, they can make a major contribution to European climate and air-quality targets.

With an eye to LNG's potential as a fuel for transport, Fluxys LNG is pulling out all the stops to develop the Zeebrugge LNG terminal into a hub for small-scale LNG use: all the ports in Belgium and North-West Europe could be supplied with LNG from Zeebrugge.

- LNG bunker ships will be able to berth at the second jetty being built in Zeebrugge, in order to load LNG.

- The Fluxys group is investigating the investments needed in Belgian ports to further develop LNG as a shipping fuel and is working closely with various port authorities to this end. The company is also actively prospecting for investment partners.

First LNG refuelling station for trucks in 2014. In 2013, the Fluxys group reached an agreement with haulage company Mattheeuws to build a first LNG filling station in Veurne. The station is due to enter service in summer 2014 and will be supplied by LNG trailers loaded at the Zeebrugge LNG terminal.

Cars, vans and buses: CNG. CNG (Compressed Natural Gas) technology offers an alternative for cars, vans and buses. In Europe, over 1 million vehicles are already running on CNG, and Belgium still has a long way to go compared with countries like Germany and Italy. Car and truck manufacturers are now marketing a wide and growing range of models and the number of filling stations is also increasing steadily.

Fluxys promotes CNG to companies and other organisations with a vehicle fleet. For example, in September the Walloon public broadcaster RTBF launched the second edition of its Mobilitissimo scheme to promote greener mobility. Having tested electric vehicles in 2012, it turned its attentions to CNG-powered cars in 2013. Fluxys Belgium was involved in the project via the Royal Association of Belgian Gas Companies (KVBG/ARGB). The KVBG/ARGB plans to develop a similar scheme with the Flemish public broadcaster VRT.

In early 2014, the KVBG/ARGB paid a €2,000 premium to anyone purchasing a CNG car as part of efforts to promote natural gas-powered vehicles at the Brussels Motor Show. This initiative was hugely successful, and will boost the number of CNG-powered cars in Belgium by as much as 60%. The KVBG/ARGB also continues to invest in the installation of CNG pumps.

1.3.5. Working with the government to boost security of supply in Belgium

Fluxys Belgium is working with the Federal Public Service Economy to reinforce security of supply in Belgium. The 2010 European Regulation on security of supply requires that the competent authorities in the Member States perform a risk assessment on the supply situation, draw up a preventive action plan and develop an emergency plan, in cooperation with neighbouring countries.

Following an initial risk analysis in 2011 and an initial preventive action plan and national emergency plan for natural gas supply in 2012, the FPS Economy took steps in 2013 to lay the foundations for a legal framework for the coordinated approach between the government and Fluxys Belgium in the event of emergency situations jeopardising security of natural gas supply. Communication between the FPS Economy and Fluxys Belgium in case of gas supply emergencies was also addressed. In addition, in collaboration with various stakeholders, attention was focused on temporary demand-reducing measures that can be implemented in the event of an imminent temporary shortage of natural gas.

In 2014, the parties will work together in the same constructive way to update the initial supply situation risk analysis, the preventive action plan and the emergency plan.

1.3.6. Investments

ENTSOG: biennial 10-year investment plan

The European Network of Transmission System Operators for Gas (ENTSOG) is responsible for publishing a coordinated 10-year investment plan and has been tasked with developing network codes in 12 different areas (see p. 39).

In early 2013, ENTSOG published its biennial coordinated Ten-Year Network Development Plan for 2013-2022. Its most significant conclusion was that the countries in Eastern Europe are too dependent on supply from Russian sources. ENTSOG's investment plan was submitted to market players for consultation and then submitted to the Agency for the Cooperation of Energy Regulators (ACER) in July 2013.

Fluxys Belgium indicative investment programme 2014-2023: €870 million

During the period 2009-2013, Fluxys Belgium invested around €1 billion in its transmission, storage and LNG terminalling infrastructure to consolidate Belgium's role as a crossroads of international gas flows, strengthen the country's security of supply and pave the way for further improvement of market liquidity.

Taking into account the current economic climate and future import flows, the company has optimised its indicative investment programme with a view to investing as efficiently as possible. Following a period of record investments, spending levels are returning to normal: the indicative investment programme for 2014-2023 represents €870 million and has served as input for the Ten-Year Network Development Plan drawn up at European level by the system operators within ENTSOG.

In view of the difficult investment climate for new gas-fired power stations, the indicative investment programme 2014-2023 does not include any projects to connect power stations to the network. However, the plan approved by the government on the proposal of Secretary of State for Energy Melchior Wathelet does include measures aimed at stimulating investment in new gas-fired power stations. It goes without saying that Fluxys Belgium will adjust its investment programme as and when concrete projects surface.

The main pillars of the indicative investment programme are:

- investments triggered by commercial initiatives and external cooperation;
- investments required to cover anticipated trends in peak demand in Belgium;
- investments to keep the natural gas transmission infrastructure in good condition and safeguard its integrity;
- investments in equipment, ICT applications and buildings.

Transition from L-gas to H-gas: a gradual approach

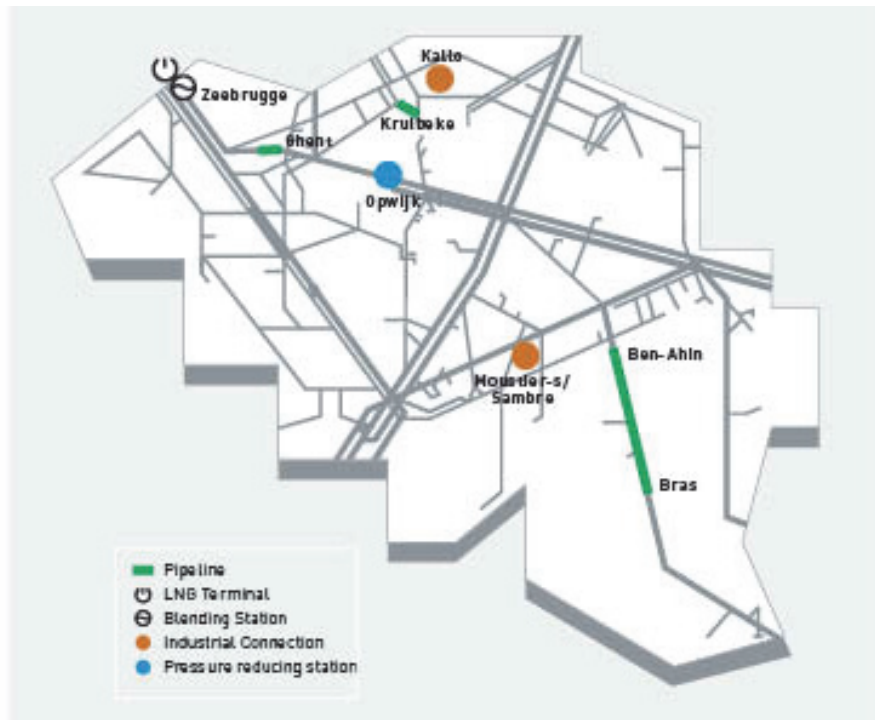
Belgium does not have any gas sources of its own and must therefore import all of its natural gas. The first natural gas to enter Belgium in 1965 came from the north of the Netherlands. However, not all natural gas fields have the same gas composition. Dutch natural gas, for example, has a lower calorific value and is known as L-gas. Sources in the North Sea, Norway, Russia, Algeria and Qatar produce natural gas with a higher calorific value, called H-gas. H-gas and L-gas cannot simply be mixed together, which is why Belgium has two separate transmission systems: one for L-gas and one for H-gas.

Transition: not an easy process. It has been known for some time that Dutch gas supplies are set to dwindle. Consultation is therefore taking place between all stakeholders with a view to ensuring that Belgium is prepared for the transition from Dutch natural gas to natural gas from other sources. However, the gradual depletion of the Groningen gas field is causing earthquakes in the region, prompting the Dutch government to monitor the situation closely and cut L-gas output in the years ahead. A coherent approach is required to gradually convert all pipelines carrying Dutch gas, which currently have around 1.5 million connections. This approach is being discussed with distribution system operators and the authorities.

Profound review of projects in the Campines region. A combination of the timetable for the transition from L-gas to H-gas and the discontinuation of a number of industrial projects has forced Fluxys Belgium to radically review a number of pipeline projects in the Campines region. Consequently, it has decided not to go ahead with the planned pipeline between Herentals and Ham, to put the Wilsele-Loenhout project on hold and to build the Tessenderlo-Diest pipeline with a larger diameter. Accordingly, revised permit applications for the Tessenderlo-Diest pipeline have been launched, taking account of the new diameter.

€101 million invested in infrastructure in Belgium in 2013

In 2013, Fluxys Belgium invested €101 million in infrastructure projects in Belgium. 57% of the total amount invested was allocated to transmission projects, 3.9% to storage projects and 39.1% to LNG terminalling projects.



Laying of new pipelines

Increased transmission capacity between Ben-Ahin and Bras (51.5 km). To meet rising demand for natural gas among households and SMEs in the Belgian province of Luxembourg, Fluxys Belgium began work in 2012 to upgrade the infrastructure for transmitting gas towards the neighbouring country of Luxembourg by replacing the current pipeline between Ben-Ahin and Bras with a new and wider one. The new pipeline was commissioned in autumn 2013.

Kruikeke (4 km). The Flemish government is creating a controlled flooding area alongside the River Scheldt in Kruikeke. As this area will be subject to regular flooding, the Fluxys pipelines located nearby needed to be re-routed, in the interests of both safety and practicality (accessibility of the pipeline). This provided an opportunity to replace the old pipelines with wider pipeline sections to help accommodate future growth in demand for natural gas in the residential market.

Ghent restructuring (15 km). Fluxys Belgium kicked off its project to restructure the grid in and around Ghent in 2013: work there will involve upgrading existing pipeline sections with new, wider pipes, decommissioning some pipeline sections and re-routing others. The aim of the project is to ensure continued security of supply for the Ghent region in an efficient way. Work began in the north of Ghent in November 2013.

The project is part of a programme to ensure that all Fluxys infrastructure will continue to meet exacting safety and quality standards in the long term. One of the company's findings was that pipes in some locations will need to be replaced in the long run, the grid will need to be restructured in some locations and some pipeline sections may be decommissioned. With that in mind, Fluxys Belgium permanently decommissioned 89 kilometres of unused pipeline in 2013.

Works at the Zeebrugge LNG terminal

Open rack vaporiser commissioned. The regasification facilities at the LNG terminal have been supplemented with an open rack vaporiser (ORV), which uses the heat of the seawater to regasify LNG into natural gas. This will considerably reduce energy consumption as well as substantially lowering carbon and nitrogen oxide emissions. Fluxys LNG began work late in 2010 and finished in spring 2013. The facility has been in use since summer 2013, with very positive results in terms of usability and convenience and with the expected reduction in air emissions.

Second jetty at Zeebrugge LNG terminal. A second jetty for loading and unloading LNG carriers is currently under construction at the LNG terminal, meaning it will be possible to receive both the smallest and the biggest LNG carriers at Zeebrugge. MBZ, the Zeebrugge Port Authority, completed work on the underwater structure in 2013. Fluxys LNG then began building the superstructure and the process facilities. The jetty will enter into service in 2015. The preparatory studies for the project have been co-financed by the European Union (Trans-European Energy Networks – TEN-E).

Works at the Zeebrugge inner port

LIN plant commissioned. The growing diversity of natural gas sources and routes between source and end consumer on the North-West European market entails a wide variation in natural gas composition. To ensure compliance with the criteria agreed with grid users and neighbouring system operators, the gas quality can be adjusted by adding nitrogen. Fluxys LNG already offers this service at the LNG terminal, but Fluxys Belgium plans to provide a nitrogen injection point in the Zeebrugge region as well. To this end, the liquid nitrogen (LIN) storage tank at the former peak-shaving plant was brought back into service in autumn 2013.

Developments in the industrial segment

At the end of 2013, the Fluxys grid comprised 234 direct connections with industrial end users, power stations and cogeneration facilities. During the course of the year, two new connections were added:

- a connection in Kallo, in the Port of Antwerp, for ADPO, a company specialising in the storage and distribution of high-quality chemicals;
- a high-pressure connection on the premises of AGC Flat Glass in Moustier-sur-Sambre.

Pressure-reducing station for distribution system operators

Opwijk junction becomes a pressure-reducing station. In Opwijk, the double valve junction enabling gas to be exchanged between VTN1 (pipeline between Eynatten and Zeebrugge) and VTN2 (pipeline between Eynatten and Opwijk) was converted into a pressure-reducing station. Two pressure-reducing lines have been available since the winter of 2013 to supply the distribution system operators Iverlek and Intergem. The expansion was needed to cope with rising gas use in the regions of Londerzeel, Opwijk, Merchtem and Dendermonde.

1.3.7. Research and development

Aims

Fluxys Belgium's research and development policy aims to obtain instruments to help the company consolidate and enhance its activities. It focuses on the following areas:

- acquiring and improving expertise in a number of technical fields;
- building and maintaining a network of academic contacts, among others;
- supporting the development of our activities through applied studies;
- maintaining and further developing our company as a green company.

Our approach

Fluxys Belgium 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), European Pipeline Research Group (EPRG), International Organization for Standardization (ISO), EASEE-GAS (European Association for the Streamlining of Energy Exchange – Gas) and Marcogaz, the Technical Association of the European Natural Gas Industry.

In the field of experimental development, Fluxys Belgium is involved in a range of projects and programmes to optimise service provision by improving or producing new materials, equipment, products and processes. The company is also undertaking experimental development work in stock and demand management and metering procedures. In addition to the partners listed above, Fluxys Belgium also collaborates with Belgian and European universities in some project stages.

Metrology

Ultrasonic metering instruments. Fluxys Belgium has been carrying out tests with ultrasonic meters since 2009 to determine whether they could be an alternative to conventional turbine meters. Ultrasonic meters require almost no maintenance and cause less pressure loss. In early 2013, Fluxys Belgium equipped the Blaregnies border station with the new meters placed in series with turbine meters. Following good test results, the FPS Economy and the neighbouring operator agreed that the ultrasonic meters could also be used as a basis for invoicing.

Laser detection of natural gas. In 2011, Fluxys carried out tests using a laser molecular assessment system to detect and measure natural gas released into the air. The detection equipment is fitted to a helicopter which flies over the pipeline route. The tests having proved the technology to be extremely accurate, the system was added to the range of gas detection measures and entered operational use in 2012, which yielded good results. In 2013, the entire network was screened using this technology.

Safe operation of pipelines and facilities

Pipeline integrity. Fluxys Belgium is currently working on a method for determining the theoretical risk of a deterioration in the integrity of a pipeline segment based on various quantitative parameters. Among the parameters considered are environmental factors and the age, location and thickness of the pipeline.

Inspection technology for cathodic protection. Together with the other members of the European Gas Research Group, Fluxys Belgium plans to evaluate a new technology in 2014 which inspects the performance of cathodic protection of pipelines by performing internal checks on the pipelines using instrumented pigs.

Fluxys Belgium also embarked on a multi-year research programme to check the state of pipelines that cannot be inspected using an instrumented pig.

Corrosion evaluation methodology. In 2013, Fluxys Belgium carried out around 30 large instrumented tensile tests in partnership with Ghent University. The aim is to develop a methodology for evaluating corrosion in combination with welded joints.

Surveillance using glass fibre cables. Fluxys Belgium's Pit-Stop programme (Early Detection of Pipeline Integrity Threats using a Smart Fibre-Optic Surveillance System) aims to develop a system for detecting third-party works near pipelines. The system uses glass fibre cables to record vibrations, with the measurements then being checked in a database to determine whether excavation work is the source of the vibration. The same technology can also be used to tell whether a pipeline has been hit.

ThreatScan. ThreatScan is a system that can record shocks on pipelines using acoustic detection. The system is mainly suitable for detecting unreported damage to large pipelines. It was installed on two pipelines in late 2012 and has been operational since 2013.

Facility design

Improving the design of pressure-reducing stations. Fluxys Belgium has come up with a completely new concept for the design and technology of these stations with a view to reducing CH₄ (methane) emissions, cutting down noise and improving safety. Following the 2012 study into improving control cabinets and reducing noise levels, a number of pilot projects got under way in 2013, in Herne and Jezus-Eik among other places.

Cutting noise levels. In 2012, Fluxys Belgium began analysing the noise sources and vibration characteristics of turbines and pipelines. In 2013, it looked for ways to make tangible improvements based on the measurements of vibration characteristics. A number of projects were also implemented, such as replacing the flues and oil coolers of compressors in Winksele and replacing the oil coolers and flues on a number of compressors in Weelde.

New natural gas applications

Study into LNG bunker terminals at Port of Antwerp. Fluxys Belgium wishes to further develop the Zeebrugge LNG terminal into a hub for small-scale LNG use, namely as a fuel for ships and trucks. As regards shipping in particular, thanks to its low emission values LNG will be a particularly good alternative fuel for ships when stricter sulphur emission standards come into force for the English Channel, the North Sea and the Baltic Sea in 2015.

All ports in Belgium and North-West Europe could be supplied with LNG from Zeebrugge. In this connection, the Port of Antwerp in 2013 commissioned Fluxys Belgium to carry out a study into the safety aspects of small-scale LNG facilities at different locations used by SEVESO companies in the port. It relates to bunker terminals for supplying ships or barges.

Biogas injection. Biogas is gas produced from waste and, like natural gas, its main component is methane. Fluxys Belgium is taking part in a study to determine what composition biogas must have in order to be able to be injected into a natural gas network and what the impact will be of blending biogas with natural gas.

Power-to-gas. Power-to-gas is a technology for converting electricity into hydrogen or synthetic natural gas and is particularly valuable as an application for generation from renewable energy sources such as wind and solar. Hydrogen and synthetic natural gas can be mixed with natural gas to a limited degree. This means that gas infrastructure can be used to store them temporarily, which is not possible with electricity. In 2014, Fluxys Belgium will actively seek partners to launch a power-to-gas project in Belgium.

In 2013, Fluxys Belgium joined forces with 10 other European companies in the North Sea Power to Gas Platform. The platform aims to bring together all players in the North Sea countries to monitor the technology and exchange best practices. As part of the platform, Fluxys Belgium is contributing to a study to determine the allowable hydrogen concentration in different natural gas systems. At present, EU Member States apply different limits. The results of the study will enable these to be harmonised. The study will also identify which applications require further research before hydrogen injection can go ahead.

Micro-cogeneration and natural gas-powered heat pumps. Within the framework of the Royal Association of Belgian Gas Companies (KVBG/ARGB), Fluxys Belgium has also continued research into new gas applications for use by households and SMEs, more specifically micro-cogeneration facilities and natural gas-powered heat pumps as an alternative to electric heat pumps.

Exchange of operational data

With a view to optimising the exchange of operational data between natural gas companies, cooperation at European level aims to standardise data exchange within the gas sector.

- Fluxys Belgium is helping via EASEE-gas to compile international protocols and standards regarding electronic data exchange between natural gas companies.
- As a member of ENTSOG, Fluxys Belgium is helping to support and further expand a joint transparency platform for exchanging system operation data and coordinating grid access information.

ICT applications for customers

In 2013, Fluxys Belgium continued to develop and refine ICT operations for its customers. Early 2013 saw the completion of the project to connect Fluxys Belgium's ICT systems to the Prisma European Capacity Platform, a shared capacity platform by 22 European transmission system operators to book capacity. Prisma entered service in mid-2013. An ICT application was developed to further improve capacity and grid simulation. The application enables simulation scenarios to be prepared and implemented.

1.4. Financial situation

1.4.1. Introduction

General development of the results

The majority of the Fluxys Belgium group's business activities are regulated. The profits of these business activities are primarily determined on the basis of equity invested, the financial structure and interest rates.

Historically low rates of interest affect authorised return and result

The interest rates used as a reference for calculating the authorised return on the regulated assets are the 10-year linear bonds issued by the Belgian state. The average interest rate in 2013 (2.43%) was lower than in 2012 (2.98%). This resulted in a drop of €8.4 million in the regulated net profit, with all other aspects remaining unchanged.

Decrease in equity invested and adjustment of the financial structure

The €421.6 million pay-out of available reserves carried out by Fluxys Belgium on 15 May 2012 enabled the Group to shift towards a financial structure that is more in line with the Belgian regulatory framework (1/3 in equity and 2/3 in liabilities).

The decrease in equity caused by this pay-out automatically reduced the level of authorised net profit by €6.3 million in comparison with 2012. Had this pay-out of available reserves not taken place, net profit for 2013 would have been higher, but the average return on the equity invested would have been lower.

Sale of the company Fluxys & Co

Fluxys Belgium chose to exercise the sales option that it held vis-à-vis GDF SUEZ. Thus, the company Fluxys & Co was sold on 18 January 2013 for a sum of €70 million. Its contribution to 2012 net profit was €3.6 million.

Retroactive accounting alteration: revision of IAS 19 Employee Benefits

The entry into force of the amendments to standards IAS 19 (IAS 19 R), on 1 January 2013, required a retroactive correction of the Group's financial statements. The impact of these amendments is essentially limited to aligning the expected rate of return from hedging instruments with the discount rate used to determine actuarial debt. The alignment of the hypotheses caused a decrease of €600,000 in the 2012 financial results and by consequence a decrease of €396,000 in net profit. On the balance sheet, only a transfer between equity items can be noted.

1.4.2. Fluxys Belgium group – 2013 results (IFRS)

Summary consolidated income statement

Summary consolidated income statement	In thousands of €	
	31-12-2013	31-12-2012 restated
Operating revenue	620,074	626,306
Other operating income	21,380	26,744
Raw materials and other materials used	-71,030	-44,365
Services and other goods	-155,977	-168,609
Personnel expenses	-125,341	-125,368
Other operating charges	-9,882	-7,720
Depreciation and amortisation	-142,220	-142,830
Provisions	19,732	23,395
Specific impairment losses	-1,535	-811
Profit from continuing operations	155,201	186,742
Change in the fair value of financial instruments	1,146	3,400
Financial income	2,385	5,819
Financial expenses	-53,326	-55,822
Profit from continuing operations after net financial results	105,406	140,139
Income tax expense	-36,788	-51,694
Net profit for the financial year	68,618	88,445
Fluxys Belgium share	68,618	88,445
Non-controlling interests	0	0
Basic earnings per share attributable to the parent company's shareholders in €	0,9766	1,2588
Diluted earnings per share attributable to the parent company's shareholders in €	0,9766	1,2588

Summary consolidated comprehensive income

Summary consolidated comprehensive income	In thousands of €	
	31-12-2013	31-12-2012 restated
Net profit for the period	68,618	88,445
Items that will not be reclassified subsequently in the income statement		
Actuarial gains and losses on employee benefits	9,989	1,126
Tax expense on other comprehensive income	-3,395	-383
Other comprehensive income	6,594	743
Comprehensive income for the period	75,212	89,188
Fluxys Belgium share	75,212	89,188
Non-controlling interests	0	0

Operating revenue for 2013 was €620.1 million, compared with €626.3 million in 2012, a decrease of €6.2 million.

- Revenue from regulated activities, namely natural gas transmission and storage and terminalling services for liquefied natural gas in Belgium, was €602.5 million, up €7.1 million compared with the previous period.
This was due to the compensated effect between, firstly, the increase in gas sales required for the network balancing operations and, secondly, the negative impact of the decreasing OLOs on the regulated authorised turnover.
The decrease in capacity sold was limited by commercial efforts to sell short-term capacity.
The group would like to point out that the tariffs applied by the Fluxys Belgium group are among the most competitive in Europe.
- Revenue from non-regulated activities was €17.6 million, a decrease of €13.3 million compared with the previous year. Revenue from the Group's interests in LNG shipping, which left the consolidation scope in 2013, amounted to €11,322,000 in 2012. The new tariffs associated with the extension of a contract for the provision of making installations available, account for the balance of the evolution of this revenue.

Other operating income includes the insurance payments covering part of the compensation distributed to victims of the Ghislenghien accident, for a larger amount in 2012 than in 2013.

Consolidated net profit. The consolidated net profit for the period was €68.6 million, a decrease of €19.8 million compared with 2012.

Net profit from regulated activities is primarily determined by the equity invested, the financial structure and the interest rates (OLOs).

The following items explain the developments of the results:

- The interest rates used as a reference for calculating the authorised return on the regulated assets are the 10-year linear bonds issued by the Belgian state. These interest rates have been at historic lows for the last two years. The average rate for 2013 was 2.43%, compared with an average of 2.98% for 2012. This resulted in a drop of €8.4 million in the regulated net profit, with all other aspects remaining unchanged.
- The €421.6 million pay-out of available reserves carried out by Fluxys Belgium on 15 May 2012 enabled the Group to shift towards a financial structure that is more in line with the Belgian regulatory framework (1/3 in equity and 2/3 in loan capital). The decrease in equity caused by this pay-out automatically reduced the authorised level of net profit by €6.3 million, in comparison with 2012. Had this pay-out of available reserves not taken place, net profit for 2013 would have been higher, but the return obtained on equity would have been lower.
- The establishment of the tariff settlements for preceding years had an additional negative impact of €2.2 million on net profit, compared with the preceding year.
- Finally, the company Fluxys & Co was sold on 18 January 2013 for a sum of €70 million. Its contribution to 2012 net profit was €3.6 million.

Summary consolidated balance sheet

Summary consolidated balance sheet assets	In thousands of €	
	31-12-2013	31-12-2012 restated
I. Non-current assets	2,449,788	2,492,625
Property, plant and equipment	2,377,315	2,416,548
Intangible assets	16,174	17,024
Other financial assets	115	3,962
Financial lease receivables	19,975	22,850
Loans and receivables	18,098	32,241
Other non-current assets	18,111	0
II. Current assets	408,467	484,598
Inventories	46,741	51,208
Financial lease receivables	2,874	2,453
Current tax receivables	1,064	1,064
Trade and other receivables	66,303	50,515
Short-term investments	143,738	48,541
Cash and cash equivalents	130,758	213,480
Other current assets	16,989	5,154
Assets intended for sale	0	112,183
Total assets	2,858,255	2,977,223

Non-current assets. The investments made in 2013 (€100.7 million) were less than the depreciation for the year (€133.9 million), explaining the decrease in property, plant and equipment. These investments were primarily in compressor stations (€7.2 million), other transport installations (€50.0 million), storage in Loenhout (€3.9 million) and the Zeebrugge LNG terminal (€39.4 million), in particular the second jetty and the Open Rack Vaporiser.

Current assets. The assets intended for sale related to the company Fluxys & Co, which was sold in January 2013.

Summary consolidated balance sheet equity and liabilities	In thousands of €	
	31-12-2013	31-12-2012 restated
I. Equity	790,852	828,062
Equity attributable to the parent company's shareholders	790,852	828,062
Share capital and share premiums	60,310	60,310
Reserves and retained earnings	730,542	767,752
Non-controlling interests	0	0
II. Non-current liabilities	1,899,978	1,869,401
Interest-bearing borrowings	1,503,758	1,458,093
Provisions	4,316	6,884
Provisions for employee benefits	50,130	47,686
Other non-current financial liabilities	122	990
Deferred tax liabilities	341,652	355,748
III. Current liabilities	167,425	279,760
Interest-bearing borrowings	84,326	91,129
Provisions	8,009	17,869
Provisions for employee benefits	3,503	3,341
Current tax payables	7,423	49,388
Trade and other payables	62,494	73,912
Other current liabilities	1,670	2,221
Liabilities related to assets intended for sale	0	41,900
Total equity and liabilities	2,858,255	2,977,223

Current liabilities. Provisions for environmental activities and the reinstatement of sites were used for €6 million and written back for €8.1 million in 2013. The latter was due to the decrease in the cost for the decommissioning of the peak shaving site in Dudzele. This provision reversal had no impact on the results for the period because it was factored into the tariff settlement and was accordingly deducted from in the regulated receivables of the storage activity. The payment of the tax balance for 2011 accounts for the decrease in the current tax payables section. The liabilities associated with assets intended for sale related to the company Fluxys & Co, which was sold in January 2013.

Equity. The decrease in equity is due to the payment of the dividend for the preceding year, which is shown in the table overleaf.

Summary statement of changes in equity

Summary statement of changes in equity		In thousands of €	
	Equity attributable to the parent company's shareholders	Non-controlling interests	Total equity
CLOSING BALANCE AS AT 31-12-2012	828,062	0	828,062
1. Comprehensive income for the period	75,212	0	75,212
2. Dividends paid	-112,422	0	-112,422
CLOSING BALANCE AS AT 31-12-2013	790,852	0	790,852

Summary consolidated cash flow statements

Summary consolidated cash flow statements		In thousands of €	
	31-12-2013	31-12-2012 restated	
Cash at the start of the period *	262,021	447,606	
Cash flows from operating activities (1)	146,564	249,370	
Cash flows from investing activities (2)	-24,717	-112,399	
Cash flows from financing activities (3)	-109,372	-322,556	
Net increase/decrease in cash	12,475	-185,585	
Cash at the end of the period *	274,496	262,021	

(1) Cash flows from operating activities also include changes in the working capital requirement. The changes in the working capital are largely due to the changes in the cash flows from the operating activities compared with 2012.

(2) This sum takes into account disposals carried out, in particular the sale of the company Fluxys & Co for €70 million.

(3) These cash flows include the available reserves and dividends paid out. In 2012, these flows included pay-out of available reserves by Fluxys Belgium, which was partly offset by a bond issue.

* "Cash" includes cash, cash equivalents and short-term investments.

Indicators

Indicators	2013	2012
RAB (in million €)		
Transmission	2,282.7	2,224.4
Storage	280.8	272.8
LNG terminalling	319.2	309.4
WACC before taxes (in %)		
Transmission	5.19	5.95
Storage	5.34	6.09
LNG terminalling	5.02	5.88
EBIT (in million €)	155.2	186.7
Net financial debt (in million €)	1,295.5	1,287.2
ROCE (in %)	4.92	5.78

EBIT: earnings before interest and taxes

ROCE: after-tax operating income divided by capital employed

1.4.3. Fluxys Belgium SA – 2013 results (Belgian GAAP): proposed allocation of profit

Fluxys Belgium SA's net profit was €55.7 million, compared with €72.6 million in 2012.

Net profit in 2013 was down on 2012, mainly due to the pay-out of available reserves by Fluxys Belgium in 2012 and the historically low interest rates (OLOs), which negatively affected the regulated return. In addition, Fluxys Belgium no longer receives dividends from the company Fluxys & Co, which was sold in January 2013. This decrease is partially compensated by the reversal of the provision for measures regarding the final decommissioning of pipelines [€8.5 million]. This programme is finished and will be replaced by an annual programme of identified works.

As of 2010 and barring unforeseen events, Fluxys Belgium aims to distribute 100% of its net profit for the year plus any reserves released as and when the revaluation surplus depreciates.

Factoring in a profit of €46.8 million carried over from the previous year and withdrawal from reserves of €41.5 million, the Board of Directors will propose to the Annual General Meeting to allocate profits as follows:

- €92.7 million as a dividend pay-out
- €6.2 million as reserves not available for distribution
- €45.1 million as profit to be carried forward.

If the proposed allocation of profits is accepted, the total gross dividend per share for 2013 will be €1.32 (€0.99 net). That amount will be payable as from 20 May 2014.

1.4.4. Outlook for 2014

Net profit from regulated activities is primarily determined by the equity invested, the financial structure and the interest rates (OLOs). The recurring dividend will continue to change depending on the development of these three parameters. The current financial markets do not allow for accurate projections regarding changes to interest rates and, therefore, the return on regulated activities.

1.4.5. Activities and results of subsidiaries

Fluxys LNG SA (consolidated subsidiary – Fluxys Belgium stake 99.99% and Flux Re stake 0.01%). Fluxys LNG owns and operates the LNG terminal in Zeebrugge and sells terminalling capacity and related services. Fluxys LNG's equity was €216.8 million at 31 December 2013, compared with €225.9 million the previous year. The net profit for financial year 2013 was €13.9 million, compared with €13.8 million in 2012.

Flux Re (consolidated subsidiary – Fluxys Belgium stake 100%). Flux Re is a reinsurance company established under Luxembourg law in October 2007. Flux Re's equity was €4.8 million at 31 December 2013, unchanged from 2012.

Prisma (non-consolidated company– Fluxys Belgium stake 9.73%). This shared capacity platform is bringing together the gas markets of seven countries in the heart of Europe and will work proactively using the capacity allocation measures set out in the future European network code.

1.5. Specific information

1.5.1. Structure of Fluxys Belgium capital at 31 December 2013

Shareholder		Class	Number of shares	%
Fluxys	Registered	B	58,523,700	
	Dematerialised	D	1,033,400	89.97
	Registered	D	3,660,000	
Public	Registered	D	27,698	
	Dematerialised	D	7,009,302	10.03
	Bearer	D	9,400 *	
Belgian State	Registered	Golden share	1	-
			70,263,501	

* The bearer shares are 94 unsplit Fluxys BE0974265945 shares.

- Classification of shares:
 - o Class B: registered shares
 - o Class D: registered, dematerialised or, unless otherwise stipulated by law, bearer shares
 - o The Belgian State holds golden share no. 1, which does not fall into any of the above classes
- Class-D shares are quoted on NYSE Euronext Brussels.
- Fluxys is a public limited company incorporated under Belgian law. Its registered office is located in Belgium at Avenue des Arts 31, 1040 Brussels. Fluxys' shareholders are Publigas (77.73%), the Caisse de dépôt et placement du Québec (19.97%), the Federal Participation and Investment Corporation (2.14%) and Fluxys' management and staff (0.16%).
- The Belgian State is represented by the Finance Minister.

1.6. Corporate Governance Declaration

Fluxys Belgium has adopted the Belgian Corporate Governance Code 2009 ('Code 2009') as its benchmark code of conduct. Fluxys Belgium 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:

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

Fluxys Belgium does not apply the 2009 Code's rules on the length of directorships. Members of the Board of Directors are appointed for a period of six years rather than the four years advocated by the 2009 Code. However, this term is justified by the technical, financial and legal particularity and complexity of the tasks and responsibilities entrusted to the natural gas system operator.

1.6.1. Developments in 2013

Changes in the composition of the Board of Directors. At the Annual General Meeting on 14 May 2013, the terms of office of the independent directors Marianne Basecq and Monique Lievens were renewed for a period of six years. The procedure for renewing terms of office on the Appointment and Remuneration Committee and the Corporate Governance Committee was complied with. Their terms of office will expire at the Annual General Meeting in 2019. Ludo Kelchtermans, who was provisionally co-opted by the Board of Directors on 27 June 2012, was officially elected as a director of Fluxys Belgium at the same meeting. His term of office will expire at the Annual General Meeting in 2014.

In addition, the Annual General Meeting of 14 May 2013 decided to appoint Valentine Delwart and Sandra Wauters as independent directors to replace Sophie Brouhon and Caroline De Padt, on the proposal of the Board of Directors and upon the advice of the Appointment and Remuneration Committee and the Corporate Governance Committee. Their terms of office will expire at the Annual General Meeting in 2019.

Appointment of government commissioners. Pursuant to the Royal Decree of 14 December 2012, the term of office of François Fontaine as a representative of the federal government on the Board of Directors of Fluxys Belgium and on that of its subsidiary, Fluxys LNG, was renewed. In addition, Aart Geens was appointed as a Dutch-speaking federal government commissioner on the Board of Directors of Fluxys Belgium and on that of its subsidiary, Fluxys LNG. The Royal Decree entered into force on 14 January 2013.

Changes to the Articles of Association and the Corporate Governance Charter. The Extraordinary General Meeting of 14 May 2013 amended the Articles of Association to bring them into line with Article 8/3 of the Act of 12 April 1965 concerning the transmission of gaseous and other products by pipelines ('Gas Act') and added the following paragraph to Article 11 of the Articles of Association: "Directors of the company may not simultaneously be members of the supervisory board, board of directors or bodies legally representing the undertaking, of an undertaking active in the production or supply of natural gas and may not exercise any rights over such an undertaking." The Corporate Governance Charter was also amended to take account of the changes to the Articles of Association of 14 May 2013.

1.6.2. Risk management

Internal control and risk management systems

Reference framework. Fluxys Belgium applies the COSO model (based on ISO 31000) as its reference framework for internal control and risk management. The risk management process is a continuous and cyclical one, to ensure ever more comprehensive mapping and effective control of risks.

The Fluxys Risk Charter sets out the organisation, development and administration of the risk management process for Fluxys Belgium and its subsidiaries. It encompasses the identification, analysis, evaluation and treatment of risks in order to assist the management in meeting company objectives. The Charter also lays down the principles, procedures, roles and responsibilities associated with risk management.

Roles and responsibilities. The Board of Directors determines the degree of risk which the company is willing to incur, in accordance with its values, strategy and core policies. The Board of Directors therefore approves the reference framework for internal control and risk management and assesses implementation of the reference framework. The Audit Committee advises the Board of Directors in this area.

At least once a year, the Audit Committee examines the internal control and risk management systems set up by the Executive Board. In this way, the Committee ensures that the most important risks are suitably differentiated, managed and communicated. Implementing risk management is the responsibility of the Executive Board. In this capacity, the Executive Board evaluates the risks and the measures taken to mitigate them.

Specifically for the internal control activities, Fluxys Belgium has organised a separation of functions in its processes and IT systems to limit the risk of errors and fraud in its accounts. In addition, a budget monitoring exercise is held every three months as part of the financial reporting procedure. The monitoring, which focuses on comparing the budget with the actual figures and with forecasts, is carried out for the group as a whole, with the results being reported to the Executive Board on a quarterly basis. Fluxys uses SAP as its system for financial reporting.

Fluxys Belgium also draws up Key Performance Indicators (KPIs). The company's main KPIs relate to the corporate objectives laid down in the Balanced Score Card (covering e.g. safety, continuity of gas flows, marketing, market development, budget balance and HR policy). Special indicators are laid down for a number of departments such as IT and Asset Management.

The company also operates a system of programme management, whereby projects are examined before they are launched, based on a number of factors such as the existence of a business case, a performance analysis and the financial impact.

Risk register. For each risk, the probability of occurrence and the seriousness are determined in either quantitative or qualitative terms. In this way, the company's risk profile is adjusted periodically.

The risks are set out in a risk matrix, in which Fluxys Belgium distinguishes three levels of risk:

- Unacceptable risks, for which measures must be taken to reduce the risk. For this category, each business unit submits proposed measures including at least a description of the actions to be taken, an assessment of the impact on revenue and cost, and the designation of a person responsible for implementation and action planning. Next, an initial risk identification round is organised and the risks are consolidated. The measures are then approved by the Executive Board.
- Risks for which measures are taken to reduce the risk in line with the ALARP ('as low as reasonably possible') principle. This means that the technological resources, economic restrictions and feasibility of the measures are weighed up carefully against the risk-reducing effect. The business units keep a close eye on the risks.
- Risks for which no additional measures are taken, but to which the principle of continuous improvement applies.

Control measures. The risk profile is compared with the risk tolerance and where necessary additional measures are taken with the aim of bringing all risks within acceptable limits. For each sector of activity, these measures are translated into a policy, procedures, instructions and a regular evaluation by means of external and internal audits, technical audits and quality controls on implementation of the measures. In this way, risk awareness within the organisation is strengthened.

Counterparty risk

Since the restructuring in 2010, cash surpluses belonging to Fluxys Belgium SA have been deposited with Fluxys Finance within the framework of cash pooling agreements. 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 a creditworthy authority is the majority shareholder or which are underwritten by a creditworthy 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 Belgium 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 Belgium cannot rule out such a risk completely or, by extension, a potential negative impact on its financial situation.

Commercial risk

Ex post deviations from reference amounts. The tariffs approved by CREG are based, among other considerations, on an estimate of the capacity quantities Fluxys Belgium will sell to grid users. The current market situation means that both transmission and storage of natural gas are under pressure, which in turn impacts on the amount of capacity actually reserved. In this context, Fluxys Belgium is working hard to make its service offering even more attractive and to keep its tariffs as competitive as possible.

- Given the overall bleak economic situation in Europe, demand for natural gas is falling. As a result, certain projects to install new connections on the Fluxys Belgium grid are being postponed.
- Meanwhile, natural gas-fired power stations are facing stiff competition from other means of electricity generation (renewable energy and coal) at a time when CO₂ certificate prices are too low. The result is that a number of existing power stations are being temporarily, and in some cases permanently, shut down and new power plant projects are being postponed. This naturally has implications for the amount of capacity being reserved.
- In addition, Fluxys Belgium's storage activity is facing particularly fierce competition for annual contracts due to an increased offer of storage and other flexibility services in Europe, partly because the summer/winter difference in gas prices is too small. Consequently, for the first time ever, storage capacity at Loenhout was not entirely sold: for storage year 2013-2014, all injection and sendout capacity was sold but only 93% of the storage volume.

Decline in long-term commitments. While the number of long-term contracts is dwindling, the number of short-term transmission contracts is on the increase. This trend is resulting in investments on the grid no longer being covered via long-term contracts. By monitoring the market closely and organising targeted marketing campaigns on the one hand, and offering competitive tariffs on the other, Fluxys Belgium is reducing the associated risks as far as possible.

Retirement scheme

Some Fluxys Belgium employees are covered by a fixed-benefit pension scheme and others by a fixed-contribution pension scheme. The fixed-benefit pension scheme is one whereby the level of benefits is determined by several factors such as duration of career, salary and working arrangements. The amount of the contributions for financing the capital is determined based on a number of actuarial scenarios such as the forecast performance of the pension fund, long-term rates, life expectancy and staff turnover.

If, at a given year-end, the market value of a fixed-benefit pension scheme's assets is less than the pension liabilities (determined on the basis of actuarial scenarios), Fluxys Belgium runs the risk of under-financing, which could result in it being required to submit a recovery plan to the Financial Services and Markets Authority (FSMA) or to fund additional contributions. Such a risk of under-financing is currently covered via provisions set aside in Fluxys Belgium's consolidated accounts. Fluxys Belgium has decided to increase the financing level by adjusting its financing method so that the risk of a recovery plan or additional funding is reduced. In this way, the impact of pension funding on Fluxys Belgium's financial situation will be smaller in future.

Operational risks

The main activities in which Fluxys Belgium is involved are transmission and storage of natural gas and LNG terminalling in Zeebrugge. Given the nature of the product Fluxys Belgium transports, the company operates a comprehensive safety and security policy.

Integrated Quality & Safety Management System. Fluxys Belgium monitors 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 Belgium 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 Belgium's processes and procedures are constantly reviewed to take account of a range of factors such as the latest technological developments.

Risks linked to the operation of Seveso sites. Fluxys Belgium and Fluxys LNG operated two Seveso sites in 2013: the LNG terminal in Zeebrugge and the underground storage facility in Loenhout. In accordance with Seveso legislation, Fluxys Belgium and Fluxys LNG pursue a proactive risk-management policy covering well-being at work, industrial safety and the environment.

Damage to infrastructure caused by third parties. Serious pipeline incidents arise mainly from damage caused by third parties. In 2013, no incidents resulting in a gas leak were 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 Belgium in advance. Fluxys Belgium 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 Belgium also plays an active role in initiatives to keep the notification requirement threshold as low as possible.

Fluxys Belgium inspectors in the field regularly 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 carrying out work in the vicinity of a pipeline about which Fluxys Belgium has not been informed.

Fluxys Belgium 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 Belgium works. Damage can also be caused while Fluxys Belgium 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 Belgium's pipelines are covered with an external coating to prevent corrosion. Fluxys Belgium also uses a cathodic protection system in the coating to provide additional electrical protection in case of faults. In addition, where possible the pipelines are systematically inspected internally using intelligent pipeline integrity gauges and externally using electrical measurements.

Environmental impact. The natural gas transmission infrastructure has a minimal impact on the environment compared with other forms of transmission and Fluxys Belgium's environmental policy focuses on systematically reducing that minimal impact further (see 'An environmental policy based on responsibility', p. 142 for more details on our environmental projects).

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. 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 Belgium 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.

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 Belgium's control such as natural disasters, terrorist attacks, new computer viruses, attempted hacking and other IT security issues. Fluxys Belgium 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 Belgium 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. However, it is impossible to rule out all eventualities resulting in disruption of gas transmission services and affecting Fluxys Belgium's 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 Belgium or Fluxys LNG. All members of these teams receive special crisis-management training and Fluxys Belgium regularly organises crisis-management drills to ensure that the group is always ready to respond to an incident. Annual drills are also conducted with the emergency services.

Regulatory risks

Monitoring expenditure. For those activities which fall under the Gas Act (regulated activities), Fluxys Belgium is remunerated on the basis of return on invested capital. In relation to these activities, Fluxys Belgium 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 energy regulator (CREG). If the regulator rejects the group's expenditure, this can have an impact on Fluxys Belgium's financial situation and results.

Improving efficiency and productivity. In September 2012, CREG approved Fluxys Belgium's tariff proposal for the period 2012-2015. As during the previous regulatory period, this tariff proposal includes a coefficient by which efficiency and productivity must be improved; the system operator is held responsible for any failure to achieve the improvement target set. As in previous years, Fluxys Belgium in 2013 achieved the targets set for improving efficiency and productivity.

Historically low interest rates. Net profit from regulated activities is primarily determined by the invested equity, the financial structure and the interest rates (10-year OLO rate). These parameters are recalculated annually based on the actual situation. Belgian interest rates are currently at a historically low level and are therefore impacting directly on the return authorised within the regulatory framework.

Legal risks

In the normal course of its activities, Fluxys Belgium is involved in a number of disputes with third parties; where necessary, legal proceedings are pursued. Fluxys also has insurance cover for any civil liability obligations vis-à-vis third parties.

Insurance

Fluxys Belgium 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 Belgium SA, or are partially self-retained, for example by applying appropriate deductibles.

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.

1.6.3. Voting rights and special powers

The Annual General Meeting represents all shareholders irrespective of their share class. It has extensive powers to perform, execute and ratify the company's business dealings. The valid decisions it makes, based on the required majority, 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, and with the Articles of Association within which these statutory provisions are incorporated, special rights shall be attributed to the golden share held by the Belgian State in Fluxys Belgium 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 Fluxys Belgium's strategic assets – a list of which is attached to the aforementioned Royal Decree dated 16 June 1994 – if the federal Energy 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 Belgium's Board of Directors and Strategy Committee;
- the right of representatives of the federal government to appeal to the federal Energy 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 Belgium's 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 federal Energy 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 Belgium's 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 Belgium share or substituting provisions remain in force.

In addition to these statutory special rights, the golden share also confers on its holder the right to receive a share one hundred times greater than that associated with each class-B and class-D share of all dividend payments and all other payments which the company makes to its shareholders.

1.6.4. 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;
- 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 pro rata 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 pro rata 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.

1.6.5. 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 and who may be dismissed by the Annual General Meeting.

Article 12 of the Articles of Association stipulates that the directorships of resigning directors who have not been re-elected shall terminate immediately after the Annual General Meeting. In the event that one or more directorships remain vacant, the remaining directors may, by a simple majority of votes, act temporarily in the place of the resigning directors. In such cases, the Annual General Meeting shall make the 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. No amendment shall be permitted unless it is passed by three-quarters of the votes.

1.6.6. Issue or buy-back of shares

Fluxys' Articles of Association authorise the Annual General Meeting to acquire the company's own shares in accordance with legal provisions. In 2013 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.

The Extraordinary General Meeting 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 the Belgian Company 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.

Pursuant to Article 622[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.

1.6.7. 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 3 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, at least one third of directors must be independent within the meaning of the Gas Act. They are chosen partly on the basis of their financial management skills and partly for their useful technical knowledge and in particular their relevant knowledge of the energy sector. One third of directors must be of a different 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 federal Energy Minister the right to appoint two representatives of the federal government to the Board of Directors.

Directors of the company may not simultaneously be members of the supervisory board, board of directors or bodies legally representing the undertaking, of an undertaking active in the production or supply of natural gas and may not exercise any rights over such an undertaking.

Directors

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

Daniël 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-Jacques Cayeman *Director*

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. He holds directorships in several organisations in the energy sector. He was appointed director in May 2010 following nomination by Publigas and his current term of office expires at the Annual General Meeting to be held in May 2016.

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' *Commissie Efficiënte en Effectieve overheid* (Commission on Efficient and Effective Government). She was appointed director in June 2009 following nomination by Publigas. Her current term of office expires at the Annual General Meeting to be held in May 2015.

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 2018.

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 alderman in 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.

Ludo Kelchtermans Director, Chairman of the Audit Committee

Ludo Kelchtermans has a degree in economics and is partner/accountant at Foederer DFK Belgium, an independent firm specialized in audit, accounting, tax law and consultancy. He is general manager in *Nutsbedrijven Houdstermaatschappij* (NUHMA) and member of the audit committee of Aspiravi. He was appointed director in June 2012 following nomination by Publigas. and his current term of office will expire at the Annual General Meeting to be held in May 2014.

Patrick Moenaert *Director*

Patrick Moenaert studied political and social sciences (sociology) at KU Leuven, is Honorary Mayor of the City of Bruges, the founder and former Chairman of *Vlaamse Centrumsteden* (VMSG, Flemish regional cities), and former Chairman of the intermunicipal company Finiwo. He was appointed director in May 1998 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 in June 2009 following nomination by Publigas. His current term of office expires at the Annual General Meeting to be held in May 2014.

Yves Rheault *Director*

Yves Rheault holds bachelor's degrees in arts and business and a master's degree in school administration. He has served – and still serves – as a director for several companies and chairs the Boards of various companies in the energy sector. He is currently an adviser at the *Caisse de Dépôt et Placement du Québec*. He was appointed director in May 2012 following nomination by *Caisse de dépôt et placement du Québec* and his current term of office expires at the Annual General Assembly to be held in May 2017.

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 in June 2009 following nomination by Publigas. His current term of office expires at the Annual General Meeting to be held in May 2017.

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 2019.

Sophie Brouhon *Director (until 14 May 2013)*

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 term of office expired at the Annual General Meeting in May 2013.

Caroline De Padt *Director (until 14 May 2013)*

Caroline De Padt studied economics, modern languages and business administration and is a provincial councillor in East Flanders and a branch manager at Axa Geraardsbergen. She was appointed independent director in May 2007 following nomination by Publigas and her term of office expired at the Annual General Meeting in May 2013.

Valentine Delwart *Director (since 14 May 2013)*

Valentine Delwart has a law degree and followed a Master in European Law. She is Alderwoman for Social Affairs in Uccle and since March 2011 has been Secretary General of the political party *Mouvement Réformateur*. She is also a director of NMBS/SNCB. She was appointed independent director in May 2013 on the proposal of the Board of Directors and upon the advice of the relevant advisory committees. Her current term of office expires at the Annual General Meeting to be held in May 2019.

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. He was approved as an independent director 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.

Hélène Deslauriers *Director*

Hélène Deslauriers studied Law at the University of Montréal and obtained an LL M at the University of London. She is a member of the Bar of the Province of Québec and a member of the International Bar Association. She was Vice President at Bombardier Transportation for 13 years. She was appointed independent director in May 2011 on the proposal of the Board of Directors and upon the advice of the relevant advisory committees. Her current term of office expires at the Annual General Meeting to be held in May 2017.

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. Her current term of office expires at the Annual General Meeting to be held in May 2019.

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.

Sandra Wauters *Director (since 14 May 2013)*

Sandra Wauters obtained a Doctor's degree in Chemical Engineering at the University of Ghent. She is Environmental Manager at BASF Antwerp where she is in charge of coordinating energy and climate related matters. She was appointed independent director in May 2013 on the proposal of the Board of Directors and upon the advice of the relevant advisory committees. and her current term of office expires at the Annual General Meeting to be held in May 2019.

Henriette Van Caenegem *Director*

Henriette Van Caenegem holds a degree in law and until the end of 2013 was Chief Legal Officer of 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 upon the advice of the relevant advisory committees. and her current term of office expires at the Annual General Meeting to be held in May 2018.

Federal government representatives

François Fontaine

François Fontaine holds degrees in law and tax law and is currently a general advisor with the *Société Fédérale de Participations et d'Investissement / Federale Participatie- en Investeringsmaatschappij* (Federal Holding and Investment Company). He was appointed as the French-speaking federal government representative by the Energy 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, as set out in Article 21 of the Articles of Association and in the Corporate Governance Charter. François Fontaine's term of office as federal government representative on the Board of Directors of Fluxys Belgium was renewed by the Royal Decree of 14 December 2012, which entered into force on 14 January 2013.

Aart Geens *(since 14 December 2013)*

Aart Geens was appointed as the Dutch-speaking federal government commissioner on the Board of Directors of Fluxys Belgium pursuant to the Royal Decree of 14 December 2012. The Royal Decree entered into force on 14 January 2013. He holds a degree in history and a Masters in international relations. He is currently an advisor to the policy unit of the Secretary of State for Energy. He was appointed federal government representative by the Secretary of State for Energy on 14 December 2012 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, as set out in Article 21 of the Articles of Association and in the Corporate Governance Charter.

The federal government representatives attend Board of Directors and Strategy Committee meetings in an advisory capacity.

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 and the advisory committees.

Secretariat

Nicolas Daubies, Company Secretary and Legal Manager, acts as secretary to the Board of Directors.

Activity report

Issues examined

The members of the Board seek to adopt decisions by consensus. In 2013, the Board addressed the following main issues:

- the strategy of Fluxys Belgium and Fluxys, including European developments and strategic alliances;
- amendments to rules on corporate governance applicable to Fluxys LNG;
- the budget 2013-2015;
- the ten-year investment programme (2014-2023);
- PMT 2014-2022;
- 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 2012 and the half-yearly financial report as at 30 June 2013;
- drafting interim statements to be released on 14 May and 13 November 2013;
- projects and research into projects related to the continuing development of the group's activities in Belgium, including:
 - o Yamal LNG;
 - o conversion from L-gas to H-gas;
 - o competitiveness of transit routes;
 - o reverse flow Italy - Belgium;
 - o identification of innovative markets, with the aim of increasing the degree of utilisation of facilities and making environmental efficiency gains;
- changes in the legal and regulatory framework, including:
 - 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 certification procedure;
 - o Tariff Network Code;
 - o standard agreements, access codes and service programmes;
 - o security of electricity supply ('Wathelet Plan');
 - o changes to public procurement legislation;

- Gas Act: action against transposition of the EU's 3rd Energy Directive and reform of the federal contribution;
 - Royal Decree on safety;
- the Fluxys LNG tariff proposal;
- commercial activities;
- the sale of Fluxys & Co;
- the ramifications of the case surrounding the Ghislenghien accident;
- convening the Annual General Meeting and the Extraordinary General Meetings;
- amendments to the composition of the Board of Directors and the advisory committees;
- examination of reports by the Strategy Committee, the Audit Committee, the Appointment and Remuneration Committee and the Corporate Governance Committee;
- organisation and succession planning at Fluxys Belgium and the development of an efficiency programme for 2014-2016;
- assessment of interaction between the Board of Directors and the Executive Board;
- launch of 2014 Board of Directors and committee evaluation procedure;
- approval of work and supply orders;
- the Fluxys SA capital increase reserved for staff;
- extending the statutory auditor's mandate and emoluments at Fluxys Belgium and subsidiary Fluxys LNG.

Frequency of meetings and attendance levels

	Attendance
Daniël Termont	6 out of 6 meetings
Claude Grégoire	6 out of 6 meetings
Marianne Basecq	6 out of 6 meetings
Sophie Brouhon	2 out of 3 meetings
Jean-Jacques Cayeman	6 out of 6 meetings
Valentine Delwart	3 out of 3 meetings
Caroline De Padt	1 out of 3 meetings
Hélène Deslauriers	4 out of 6 meetings
Mireille Deziron	5 out of 6 meetings
André Farber	5 out of 6 meetings
Luc Hujuel	5 out of 6 meetings
Luc Janssens	6 out of 6 meetings
Ludo Kelchtermans	6 out of 6 meetings
Monique Lievens	6 out of 6 meetings
Patrick Moenaert	5 out of 6 meetings
Walter Nonneman	6 out of 6 meetings
Josly Piette	4 out of 6 meetings
Yves Rheault	6 out of 6 meetings
Henriette Van Caenegem	4 out of 6 meetings
Christian Viaene	6 out of 6 meetings
Sandra Wauters	2 out of 3 meetings
Luc Zabeau	5 out of 6 meetings

1.6.8. Committees formed by the Board of Directors

Strategy Committee

Composition of the Strategy Committee

The Strategy Committee comprises eight non-executive directors, of whom at least one third must be independent under the provisions of the Gas Act.

Chairman

Claude Grégoire

Vice-Chairman

Daniël Termont, Chairman of the Board of Directors

Members

Sophie Brouhon* *(until 14 May 2013)*

Caroline De Padt* *(until 14 May 2013)*

Valentine Delwart* *(since 14 May 2013)*

Luc Hujjoel

Patrick Moenaert

Walter Nonneman*

Yves Rheault

Sandra Wauters* *(since 14 May 2013)*

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

Federal government representatives acting in an advisory capacity

François Fontaine

Aart Geens *(since 14 December 2013)*

Invited in an advisory capacity

Walter Peeraer, Chairman of the Executive Board and CEO

Christian Viaene, Director

Secretariat

Nicolas Daubies, Company Secretary and Legal Manager, acts as secretary to the Strategy Committee.

Issues examined

The Strategy Committee was set up within the Board of Directors in accordance with Article 17.3 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 2013, the Strategy Committee addressed the following issues:

- the strategy of Fluxys Belgium and Fluxys, including European developments and strategic alliances;
- budget 2013 - 2015 and budget 2014 - 2016;
- the ten-year investment programme (2014-2023);
- PMT 2014-2022
- Flux Re investment policy;
- HSEQ policy;
- amendments to rules on corporate governance applicable to Fluxys LNG;
- sale of Fluxys & Co;
- projects and research into projects related to the continuing development of the group's activities in Belgium, including:
 - o Yamal LNG;
 - o storage project;
 - o market integration project;
 - o conversion from L-gas to H-gas;
 - o competitiveness of transit routes;
 - o reverse flow Italy - Belgium;
 - o identification of innovative markets, with the aim of increasing the degree of utilisation of facilities and making environmental efficiency gains;

- changes in the legal and regulatory framework, including:
 - 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;
 - the certification procedure;
 - Tariff Network Code;
 - standard agreements, access codes and service programmes;
 - security of electricity supply ('Wathelet Plan');
 - changes to public procurement legislation;
 - Gas Act: action against transposition of the EU's 3rd Energy Directive and reform of the federal contribution ;
 - Royal Decree on safety;
- the ramifications of the case surrounding the Ghislenghien accident;
- commercial activities and grid operation;
- information relating to operation and safety;
- the company's financial situation;
- ordering superstructure of 2nd jetty.

Frequency of meetings and attendance levels

The Strategy Committee met eight times in 2013. Director attendance at Strategy Committee meetings in 2013 was as follows:

	Attendance
Claude Grégoire	8 out of 8 meetings
Daniël Termont	7 out of 8 meetings
Sophie Brouhon	2 out of 3 meetings
Valentine Delwart	4 out of 5 meetings
Caroline De Padt	1 out of 3 meetings
Luc Hujuel	6 out of 8 meetings
Patrick Moenaert	7 out of 8 meetings
Walter Nonneman	8 out of 8 meetings
Yves Rheault	8 out of 8 meetings
Christian Viaene	8 out of 8 meetings
Sandra Wauters	5 out of 5 meetings

Audit Committee

Composition of the Audit Committee

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

Chairman

Ludo Kelchtermans

Members

Marianne Basecq*

Sophie Brouhon* (*until 14 May 2013*)

Jean-Jacques Cayeman

André Farber*

Yves Rheault

Henriette Van Caenegem*

Sandra Wauters* (*since 14 May 2013*)

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

Accounting and auditing expertise of the members of the Audit Committee²

Ludo Kelchtermans:

- degree in economics (econometrics) from the *Katholieke Universiteit Leuven* (Catholic University of Leuven);
- has been an accountant for over 25 years and is currently an associate with Foederer DFK Belgium. Since 2001, he has been a director of Nuhma, a public holding company with stakes in energy companies such as Aspiravi, C-Power and the *Vlaamse Energieholding* (Flemish energy holding, VEH). Through his role as director in various companies, he is also represented on various audit committees;

² Pursuant to the Belgian Company Code (Article 96), the independence and expertise in accounting and auditing of at least one member of the Audit Committee must be accounted for in the annual report.

- Managing Director of Nuhma since September 2012, and General Manager since May 2013.

Marianne Basecq:

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

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 *Université Libre de Bruxelles* (Brussels Free University);
- university lecturer in finance for over 30 years and formerly interim Accounting Director for the *Université Libre de Bruxelles*. Chairman of the Board of Directors of a Belgian bank, within which he chairs the financial risks monitoring committee; member of a bank audit committee.

Yves Rheault:

- degree in business and administration;
- performed CEO and financial management roles at a Canadian energy company;
- sat on the audit committee of companies in Canada and the United States;
- actively involved in implementing investment projects by Canadian financial institutions in the fields of energy and infrastructure.

Henriette Van Caenegem:

- holds a law degree from Ghent University and a Master of Laws (LL M. Cantab, Cambridge);
- as a corporate lawyer, risk management was one of her key roles, while as former General Counsel for UCB and Chief Legal Officer for Tessenderlo Group she is well versed in the financial aspects of company management, having handled numerous takeovers; risk management is now one of her main tasks.

Sandra Wauters:

- doctorate in chemical engineering;
- in her operations role at BASF Antwerp, she has acquired experience in HAZOP studies and technical risk assessments.

Secretariat

Nicolas Daubies, Company Secretary and Legal Manager, acts as secretary to the Audit Committee.

Issues examined

The Audit Committee was set up within the Board of Directors to assist the latter. It has the powers assigned to an audit committee by law as well as any other powers that may be assigned to it by the Board of Directors. The members of the Audit Committee seek to adopt decisions by consensus. In 2013, the Committee addressed the following main issues:

- the company's accounts as at 31 December 2012 and 30 June 2013 as well as associated press releases (financial part);
- the annual financial report for 2012 and the half-yearly report as at 30 June 2013;
- the principles governing the closing of accounts;
- interim statements released on 14 May and 13 November 2013;
- examination of the work of the auditor;
- extending the statutory auditor's mandate and emoluments at Fluxys Belgium and subsidiary Fluxys LNG;
- examining the internal control and risk management system;
- goals, timetable and activities of the internal audit in 2013;
- internal-audit schedule for 2014;

- the technical audit team's audit plan;
- following up on the recommendations made in the wake of the internal audit in 2012;
- assessing the efficacy of the internal audit (Quality Assessment Review - QAR);
- presentation of the 2013 data sheets of Fluxys Belgium SA subsidiaries.

Frequency of meetings and attendance levels

The Audit Committee met four times in 2013. Director attendance at Audit Committee meetings in 2013 was as follows:

	Attendance
Ludo Kelchtermans	4 out of 4 meetings
Marianne Basecq	4 out of 4 meetings
Sophie Brouhon	2 out of 2 meetings
Jean-Jacques Cayeman	3 out of 4 meetings
André Farber	4 out of 4 meetings
Yves Rheault	4 out of 4 meetings
Henriette Van Caenegem	4 out of 4 meetings
Sandra Wauters	1 out of 2 meetings

Appointment and Remuneration Committee

Composition of the Appointment and Remuneration Committee

The Appointment and Remuneration Committee comprises seven directors, of whom the majority must be independent. The committee must have the required expertise in remuneration policy.

Chairman

Christian Viaene

Members

Marianne Basecq*

Sophie Brouhon* *(until 14 May 2013)*

Valentine Delwart* *(since 14 May 2013)*

Hélène Deslauriers*

Caroline De Padt* *(until 14 May 2013)*

Mireille Deziron

Luc Hujoel

Walter Nonneman*

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

Secretariat

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

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. It has the powers assigned to a remuneration committee by law as well as any other powers that may be assigned to it by the Board of Directors. The members of the Appointment and Remuneration Committee seek to adopt decisions by consensus. In 2013, the Appointment and Remuneration Committee addressed the following main issues:

- compilation of the draft remuneration report;
- opinion on the appointment of new directors;
- opinion on the reappointment of directors whose term of office had expired;
- the objectives for the Chairman and members of the Executive Board;
- the evaluation of the Chairman and members of the Executive Board;
- the recommendation as regards remuneration of the Chairman of the Executive Board (fixed and variable remuneration);
- the recommendation as regards remuneration of the other members of the Executive Board (fixed and variable remuneration) based on a proposal by the Chairman of the Executive Board ;
- progress on company objectives for 2013;
- organisation and succession planning at Fluxys Belgium;
- preparing evaluation forms for the Board of Directors;
- amendments to rules on corporate governance applicable to Fluxys LNG;
- benchmarking on the remuneration of directors of Belgian companies.

Frequency of meetings and attendance levels

The Appointment and Remuneration Committee met four times in 2013. Director attendance at Appointment and Remuneration Committee meetings in 2013 was as follows:

	Attendance
Christian Viaene	4 out of 4 meetings
Marianne Basecq	2 out of 4 meetings
Sophie Brouhon	1 out of 2 meetings
Valentine Delwart	2 out of 2 meetings
Hélène Deslauriers	2 out of 4 meetings
Caroline De Padt	1 out of 2 meetings
Mireille Deziron	4 out of 4 meetings
Luc Hujjoel	4 out of 4 meetings
Walter Nonneman	3 out of 4 meetings

Corporate Governance Committee

Composition of the Corporate Governance Committee

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

Chairman

André Farber*

Members

Sophie Brouhon* *(until 14 May 2013)*

Valentine Delwart* *(since 14 May 2013)*

Hélène Deslauriers*

Luc Janssens

Monique Lievens*

Henriette Van Caenegem*

Luc Zabeau

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

Secretariat

Nicolas Daubies, Company Secretary and Legal Manager, acts as secretary to the Corporate Governance Committee.

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 seek to adopt decisions by consensus. In 2013, the Corporate Governance Committee addressed the following main issues:

- preparation of the 2012 annual report by the Corporate Governance Committee drafted on the basis of Article 8/3 § 5, 3° of the Gas Act;
- opinion on the appointment of independent directors;

- opinion on the reappointment of independent directors whose term of office had expired;
- examination of applications for a position as independent director at Fluxys LNG.

Frequency of meetings and attendance levels

The Corporate Governance Committee met three times in 2013. Director attendance at Corporate Governance Committee meetings in 2013 was as follows:

	Attendance
André Farber	3 out of 3 meetings
Sophie Brouhon	3 out of 3 meetings
Valentine Delwart	0 out of 0 meetings
Hélène Deslauriers	1 out of 3 meetings
Luc Janssens	3 out of 3 meetings
Monique Lievens	3 out of 3 meetings
Henriette Van Caenegem	3 out of 3 meetings
Luc Zabeau	3 out of 3 meetings

1.6.9. Evaluation of the Board of Directors

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

- regularly, and at least once every three years, examine and assess its own efficiency and that of the company's management structure and of its committees (size, composition), in particular the role and tasks of the various committees of the Board of Directors;
- examine annually how it interacts with the Executive Board;
- regularly examine and assess the contribution made by each director, so as to be able to adjust the composition of the Board of Directors to changing circumstances and within the framework of the reappointment process.

The evaluation of the Board of Directors and the advisory committees will take place in 2014.

In 2013, the Board of Directors examined how it interacted with the Executive Board based on a questionnaire completed by each member individually. The questionnaire covered the following subjects:

- evaluating the interaction between non-executive directors and management (information flow, supervision, distribution of roles, policy, etc.);
- the manner in which the Board of Directors monitors the Executive Board, and the monitoring methods used and their efficiency;
- the manner in which the appointment of members of the Executive Board and their contractual relations with the company are discussed;
- the criteria laid down for evaluation of the Executive Board and self-evaluation.

The responses to the questionnaire were analysed and the conclusion was drawn that, overall, the members of the Board of Directors were satisfied to very satisfied with the interaction between the Board of Directors and the Executive Board.

In addition to the annual evaluation, the Corporate Governance Charter also states that each advisory committee must review its internal rules of procedure and overall efficiency at least every two years. This is done at the same time as the Board of Directors' evaluation.

1.6.10. Company management in 2013

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

Walter Peeraer, Chairman of the Executive Board and Chief Executive Officer
Pascal De Buck, member of the Executive Board and General Commercial Director
Peter Verhaeghe, member of the Executive Board and General Director Asset Management
Jean-Luc Vandebroek, member of the Executive Board and Chief Financial Officer (until 31/1/2014)

It was decided by mutual consent to end the collaboration between Fluxys Belgium and Jean-Luc Vandebroek with effect from 31 January 2014. To ensure continuity over the coming months, Paul Tummers agreed to take over as acting Chief Financial Officer in addition to his current position. Paul Tummers has the knowledge and ability required to do the job in the short term. The procedure for appointing a Chief Financial Officer (CFO), as stipulated in Fluxys Belgium's Articles of Association and Corporate Governance Charter, has been put in place with a view to making a permanent appointment.

Nicolas Daubies, Company Secretary and Legal Manager, acts as secretary to the Executive Board.

In addition to the matters submitted to the Board of Directors (see p. 94-95), the Executive Board focused on the following issues:

- **Strategy:** 2013-2015 objectives and balanced score cards, indicative investment programme 2014-2023
- **Commercial activities:** monitoring activities on the Prisma platform, evaluating the first year of the new entry/exit model and ZTP gas trading point, analysing service competitiveness, gas purchases for network balancing, monitoring liquidity at the Zeebrugge Beach and ZTP trading places
- **Finance:** annual and half-yearly financial results, sale of the subsidiary Fluxys & Co, efficient cost management, audit policy, drafting and monitoring the budget
- **Legal and regulatory framework:** monitoring and implementation of ENTSO network codes, market consultations and information session on regulatory documents for new services, proposal to CREG for adjusted storage service tariffs, preparation for the next tariff period

- **Infrastructure and operations:** network safety, analysing incidents, near-incidents and occupational accidents, the SOUL project, investment projects and orders up to €20 million, policy for decommissioning pipelines, obtaining the necessary permits for investment projects or operational activities, open rack vaporiser (ORV) operations in Zeebrugge, communication with municipalities and provinces following the 2012 local elections, R&D policy
- **Human resources:** organisation, competency management, efficiency programme
- **Monitoring the activities of subsidiaries**
- **Preparing dossiers for the Board of Directors**

As stipulated in its internal rules of procedure, the Executive Board is convened by the Chairman and, in principle, meets once a week.

1.6.11. Remuneration report

Board of Directors: procedures, principles and emoluments

Remuneration policy

The procedure for drawing up the remuneration policy for Fluxys Belgium's directors is as follows: the Appointment and Remuneration Committee makes a number of recommendations; the Board of Directors comes up with a proposed remuneration policy for the directors based on these recommendations; the remuneration policy is then approved by the Annual General Meeting.

Remuneration level

During financial year 2013, Fluxys Belgium set the directors' remuneration at the same level as the previous financial year in line with the principles outlined in the Articles of Association and the Corporate Governance Charter.

The Annual General Meeting has set the overall annual amount of emoluments for directors and the government representatives at a maximum of €360,000 per year (subject to indexing) as from 1 July 2007. The Board of Directors distributes the overall amount between the 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.

Within the limits of the maximum 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(s), and an additional share for the Chairman of the Board;

- an additional half share for members of special committees (including for the government representative(s) 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 receive neither performance-related remuneration, such as bonuses or long-term, share-related incentive schemes, nor benefits in kind or pension-plan benefits.

At the end of the first half-year, directors are paid an advance on their emoluments and attendance fees. This advance is calculated based on the indexed basic remuneration and in proportion to the duration of the directorship in the half-year. A balancing payment is made during the month of December for the financial year.

Directors' emoluments

For their work on Fluxys Belgium's Board of Directors and its various committees, the directors received the following emoluments and attendance fees in 2013:

Name	Gross total (€)
Daniël Termont	26,841.75
Marianne Basecq	21,673.40
Sophie Brouhon	12,868.41
Jean-Jacques Cayeman	16,255.05
Valentine Delwart	16,951.41
Caroline De Padt	7,662.27
Hélène Deslauriers	20,423.40
Mireille Deziron	16,255.05
André Farber	21,673.40
Claude Grégoire ⁽¹⁾	22,423.40
Luc Hujuel ⁽²⁾	22,423.40
Luc Janssens	16,255.05
Ludo Kelchtermans ⁽⁵⁾	16,505.05
Monique Lievens	16,255.05
Patrick Moenaert	8,502.53
Walter Nonneman	23,173.40
Josly Piette ⁽¹⁾	10,336.70
Yves Rheault ⁽³⁾	23,423.40
Henriette Van Caenegem	21,423.40
Christian Viaene ⁽⁴⁾	23,423.40
Sandra Wauters	13,761.13
Luc Zabeau ⁽²⁾	16,005.05
François Fontaine	17,755.05
Aart Geens	16,255.05
Total	428,525.20

At their request, notification is hereby given that some directors have retroceded their emoluments and attendance fees:

- (1) These directors retroceded their emoluments and attendance fees to SOCOFE.
- (2) These directors retroceded their emoluments and attendance fees to Interfin.
- (3) This director retroceded his emoluments and attendance fees to Caisse de dépôt et placement du Québec.
- (4) Christian Viaene retroceded his emoluments and attendance fees to Sibelgas.
- (5) Ludo Kelchtermans retroceded his emoluments and attendance fees to Nuhma.

The federal government representatives, who attend meetings of the Board of Directors and the Strategy Committee in an advisory capacity, are:

- François Fontaine, whose term of office was renewed by the Royal Decree of 14 December 2012, which entered into force on 14 January 2013³;
- Aart Geens, who was appointed by the same Royal Decree of 14 December 2012.

The members of Fluxys Belgium's Board of Directors hold no paid directorships in other Fluxys group companies.

³ Royal Decree appointing federal government auditors to the Boards of Directors of the relevant operators, as provided for in Article 8/3(1/3) of the Act of 12 April 1965 concerning the transmission of gaseous and other products by pipeline.

Executive Board: procedures, principles and remuneration

Remuneration policy

The procedure for drawing up the remuneration policy for members of Fluxys Belgium's Executive Board is as follows: the Appointment and Remuneration Committee comes up with some recommendations for the Board of Directors, and the Board of Directors approves the remuneration policy for the Executive Committee on the basis of these recommendations. The Appointment and Remuneration Committee developed a remuneration policy based on external benchmarking via the internationally recognised HAY methodology and submitted it to the Board of Directors. The remuneration policy seeks to establish a fixed basic salary that is proportionate to the level of responsibility and commensurate with a benchmark salary in the general marketplace, and a variable remuneration that rewards personal and company performance.

The members of the Executive Committee work for both Fluxys Belgium and its parent company Fluxys. As such, a share of their basic salary and variable remuneration is paid in respect of their activities at Fluxys Belgium, while another share is paid in respect of their activities at Fluxys.

Remuneration level

Basic salary. The change in the basic salary is linked to the position of each member of the Executive Board with respect to a benchmark salary in the general marketplace and the assessment of his/her individual performance. The HAY methodology (external benchmark) is used to weight each management position and ensure that remuneration is in line with the going market rate.

Performance-related remuneration. The level of performance-related remuneration received is based on the extent to which company and individual objectives have been achieved. Each year, the company objectives for the coming years are detailed in a Management Balanced Score Card compiled on the basis of a long-term strategy. The Management Score Card is used to produce individual Balanced Score Cards for each member of the Executive Board. The individual Score Cards are based on collective objectives, personal objectives (some cross-company, some individual), leadership and

values. The individual Score Cards are used to determine the extent to which each member of the Executive Board has achieved his or her individual objectives.

As regards the spreading of variable remuneration for 2013, Fluxys Belgium is covered by the legal derogation from the requirement to spread payment over three years, because the on-target variable remuneration of Executive Board members is not more than 25% of the total annual remuneration.

Remuneration of Executive Board members

Setting of remuneration. For financial year 2013, the Chairman of the Executive Board was evaluated by the Board of Directors, following an opinion by the Appointment and Remuneration Committee, based on the extent to which the stipulated objectives were achieved. The Appointment and Remuneration Committee was also given an explanation by the Chairman of the Executive Board regarding the evaluation of the other members of the Executive Board in 2013.

On 29 January 2014, the Board of Directors approved performance at Fluxys Belgium for 2013. It also approved the basic salary and variable remuneration for the Chairman of the Executive Board, on the proposal of the Appointment and Remuneration Committee, and the basic salary and variable remuneration for other members of the Executive Board, on the proposal of the Chairman of that body.

The remuneration granted to members of the Executive Board comprises:

- a basic salary;
- performance-related remuneration depending on the degree to which the objectives set each year have been achieved (company and individual objectives);
- a defined-contribution pension plan administered in accordance with the rules applicable to companies in the gas and electricity sector;
- other components: expenses to cover insurance and benefits in kind, including gas and electricity sector benefits.

Executive Board members receive neither shares nor share options in the company as part of their basic salary or performance-related pay.

The variable remuneration for the Chairman of the Executive Board is paid partly in cash, with another part being paid into the group insurance scheme. For the other members of the Executive Board, the variable remuneration is paid entirely in cash.

Remuneration awarded to the Chairman of the Executive Board in 2013:

Basic salary	€ 312,000
Variable remuneration	€ 120,042
Pension	€ 124,353
Other components	€ 16,656
Total	€ 573,051

At the explicit request of Walter Peeraer, 10% of the basic salary for 2014 and 10% of the variable remuneration was waived. The ratio in the multi-employer contract was also adjusted.

Total remuneration awarded to other members of the Executive Board in 2013:

Basic salary	€ 429,622
Variable remuneration	€ 145,536
Pension	€ 155,349
Other components	€ 49,841
Total	€ 780,348

The differences compared with the remuneration awarded in 2012 can be explained by changes that took place in the composition of the Executive Board in 2013.

Under the multi-employer contract, the members in question were remunerated partly for services rendered at Fluxys Belgium and partly for services rendered at Fluxys.

Contractual provisions. All members of the Executive Board, except the Chairman, have employee status. Fluxys Belgium applies the relevant legal provisions to their employment contracts. In the case of the Chairman of the Executive Board, the contract does not provide for any compensation in lieu of notice. The members of the Executive Board hold unpaid offices, or with retrocession to Fluxys Belgium, in other companies within the Fluxys Belgium consolidation scope.

If it transpires that a deliberate error has resulted in inaccurate financial data being used as the basis for the variable remuneration, Fluxys Belgium will take the error into account in the evaluation process of the individual concerned in the year in which the error is detected.

At the request of the Board of Directors, Walter Peeraer agreed to extend his term of office as Chairman of the Executive Board and CEO of Fluxys Belgium.

Remuneration policy for the next two financial years

In 2013, Fluxys Belgium analysed the 2012 remuneration policy and level for directors based on a comparison with similar-sized companies in the industrial sector. This study will be continued in 2014.

1.6.12. 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, without being asked, withdraw from the Board of Directors' meeting while the matter in question is being discussed and must not take part in the voting, including by proxy, on said matter. Reasons for this 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 the 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 2013.

1.6.13. Auditor

At the 2013 Annual General Meeting, the mandate of Deloitte SCRL, Réviseurs d'entreprise, was renewed for a period of three years.

Emoluments. The Annual General Meeting determined the annual emoluments of Deloitte SCRL, Réviseurs d'entreprise. In 2013, Deloitte received emoluments totalling €152,320 for its work as Fluxys Belgium's auditor. Deloitte also performed other tasks worth a total of €10,550.

1.6.14. 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.

1.6.15. Disclosure of major holdings

The periodic disclosure pursuant to Article 74 §8 of the Act of 1 April 2007 was sent on 30 August 2013. On the date of the notification, Fluxys SA held 63,217,100 shares with voting rights in Fluxys Belgium SA. Publigas held no shares with voting rights in Fluxys Belgium. Fluxys SA and Publigas confirmed that, between 31 August 2012 (date of the previous notification) and 30 August 2013, they did not acquire or transfer any shares with voting rights in Fluxys Belgium.

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