OneteamOnetarget

Our profile:

a purpose-driven company

Everyone and everything needs energy to grow and flourish. People can rely on us to make that energy flow. Day and night, we're there to ensure security of energy supply. And in the meantime, we're getting our infrastructure ready for the years to come. Today, we transport natural gas, tomorrow we'll also be transporting hydrogen and CO_2. That's how we keep people, society and the planet moving.

Our purpose and strategy

Shaping together a bright energy future

We are committed to continuing to build a greener energy future for the generations to come. People, industry and societies all need energy to thrive and progress. Fluxys Belgium accommodates this need: we put energy in motion through our infrastructure. We move natural gas while paving the way for the transmission of hydrogen, biomethane or any other carbon-neutral energy carrier as well as CO_2, supporting carbon capture, reuse and storage.

together

The energy ecosystem is complex and the demand for energy as a driver of human progress combined with a global need to make energy more sustainable is a challenge that requires everyone to get involved. Redesigning the energy system will not be easy, yet it can be done if we work together. **Together** refers to all our stakeholders: our employees, shareholders, industrial partners, customers, the general public and all actors in the energy system. At Fluxys, we truly believe that cooperation is the key to our success.

bright

Bright: With optimism we dare to say that our infrastructure, with its capacity for CO_2 and for green gases such as hydrogen and biomethane, will play a substantial role in the transition to a carbon-neutral energy future for everyone.

future

The word **future** encapsulates a responsibility. With our unique assets as an infrastructure company, we owe it to ourselves to contribute to a greener energy future for the generations to come.

Our strategy

Value creation: a continuous process

Our purpose **Shaping together a bright energy future** reflects our ambition to be an all-encompassing value creator. What this means in practice is becoming clearer year by year. Whereas in previous years Fluxys Belgium created value based on the 3Ps, People, Planet and Prosperity, since 2022 it has resolutely adopted an **E**nvironment **S**ocial **G**overnance approach.

Value creation is embedded in our purpose, and ESG is the new lens we are using to make the process behind that tangible.

Moreover, Fluxys Belgium's value creation as an essential infrastructure company in the energy transition was the subject of even greater focus in 2022.

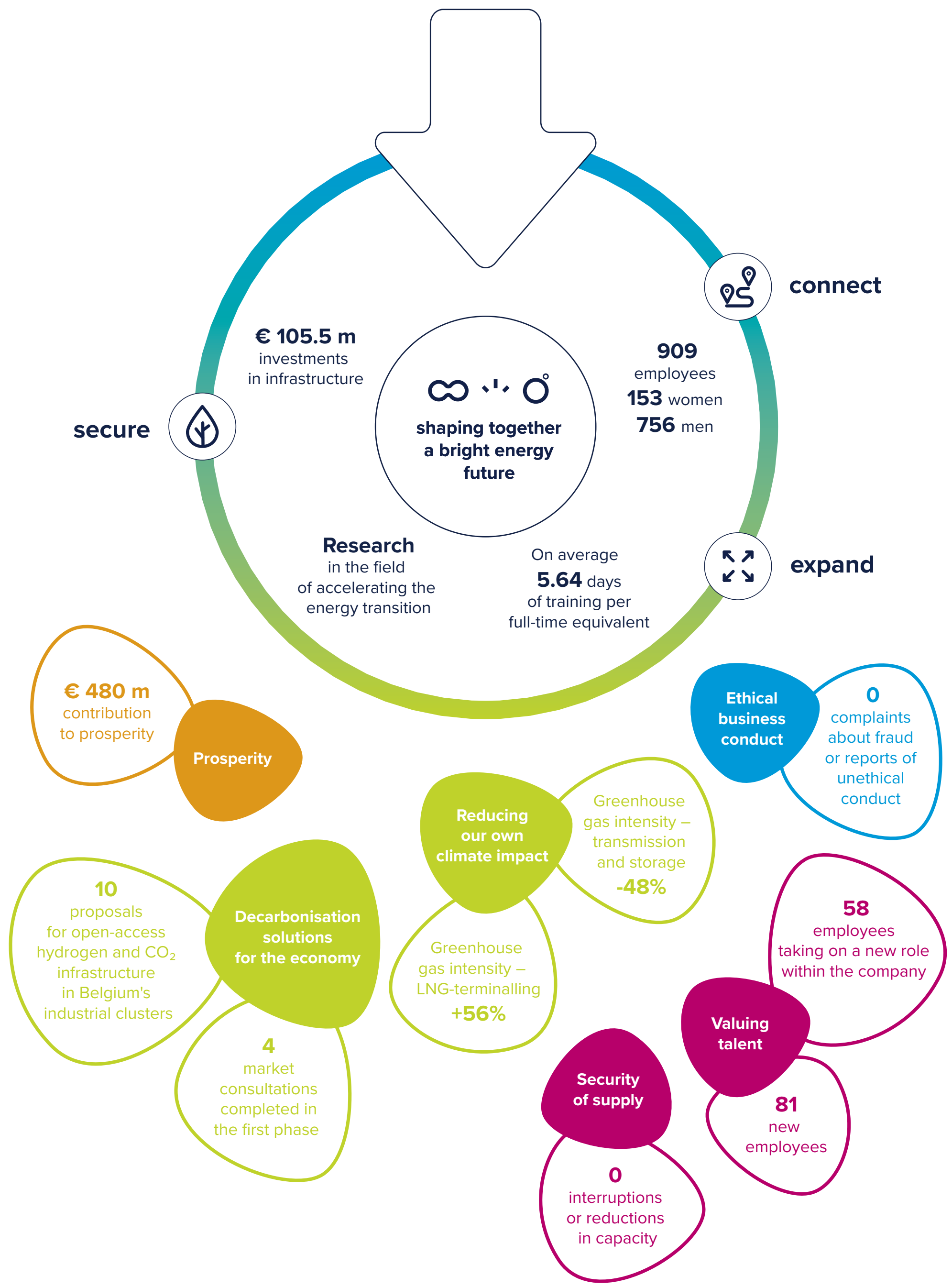
Thus, the strategic ambition to speed up the energy transition was anchored more firmly in the business model. During a transitional phase, our multi-faceted ambition is to support society with its energy needs, develop a multi-molecule infrastructure with cross-border connections, and explore new green energy chains.

To meet this ambition, Fluxys Belgium deploys a wide range of resources to create value that goes beyond the financial.

The company is taking additional steps based on this integrated, purpose-driven vision of being the essential infrastructure company. For example, a Transformation and Sustainability Director was appointed in 2022 to support the ESG process, among other things. Moreover, this integrated annual report represents the start of a transition to ESG reporting.

Fluxys Belgium wants to further develop this continuous process of value creation in the years ahead by involving its stakeholders.

Together with our stakeholders, we are taking the opportunity to look holistically at our value creation. That is the perspective we are starting out from.



Our context

Market dynamics

In 2022, the European natural gas market was hit by the effects of the gradual reduction in pipeline supplies of Russian gas. During the year, a new balance emerged between supply and demand: on the one hand, liquefied natural gas (LNG) imports increased considerably; on the other hand, demand fell significantly, mainly due to a substantial rise in prices.

The Belgian network is a major crossroads for the European gas market. The decline of Russian pipeline gas mainly affected Germany, leading to the need for new transit configurations. As a result, we have seen in the Belgian network very substantial flows from the west, including imports from Norway, France and the UK, for transit to Germany and the Netherlands.

Climate and Energy Transition policy

In 2022, in response to the natural gas supply issues, Europe took measures to boost short-term security of supply, for example by requiring that a given level of gas was in storage before the winter, and also to speed up the energy transition. Various legislative initiatives arising from the European Green Deal have now been approved, but the hydrogen and decarbonised gas market package has not yet been finalised.

This package is expected to propose a European legal and regulatory framework for carbon-neutral molecules, such as hydrogen, biomethane and synthetic methane, alongside renewable electricity, in the energy system of tomorrow. Carbon capture, reuse or storage is also set to be recognised as one of the many solutions that can be brought together to achieve the objective of climate neutrality.

A number of European countries, including Belgium, France, Germany and the Netherlands, have adopted ambitious hydrogen strategies or updated such a strategy, sometimes incorporating specific targets for the production of hydrogen and/or developing support mechanisms to encourage this production. In early 2023, Belgium's federal government proposed a regulatory framework for hydrogen which is under discussion in the Federal Parliament (see the "Legal and regulatory framework" section, page 38).

Innovation

To shape the energy transition, innovative technologies will have to be deployed on a large scale as quickly as possible, in a number of areas spanning both the production of renewable and low-carbon energy sources and the methods of transport and storage.

For example, the industry is fully committed to the expansion and development of innovative hydrogen-production technologies. This hydrogen can then be used directly or serve as a basic component for other by-products such as synthetic methane and synthetic methanol. These synthetic energy carriers can also be produced using CO_2 captured from industry, introducing innovative and circular production processes with a carbon-neutral or even carbon-negative footprint.

Molecules for a carbon-neutral future will need to be transported and stored. Fluxys Belgium is therefore doing everything it can to make this possible, drawing on a plan for the reuse of existing infrastructure and for new infrastructure as tools of the energy transition.

Our services for speeding up the energy transition

Natural gas & bio-methane services

- We will transport natural gas for as long as necessary.
- We provide open-access infrastructure connected to as many sources as possible to support security of supply.
- In this way we help society make the transition to carbon-neutral energy and raw materials. We are already able to transport large volumes of carbon-neutral biomethane.

Transmission
Storage
Terminalling

The connection to various sources and neighbouring markets, the flexibility of the service offering and the availability of the sales team all make the difference in these turbulent times and this difficult market situation.

Hydrogen services

- We get low-carbon hydrogen to customers in the form of energy and raw material.
- We provide open-access infrastructure connected to as many sources as possible to support security of supply.
- In this way we help decarbonise industry, power generation and the transport sector.

Transmission
Terminalling

With low-carbon hydrogen we can get our company's emissions to net zero.

CO_2 services

- We transport CO_2 to sites where it can be reused or exported to permanent storage.
- We provide open-access infrastructure that offers as many takeaway options as possible.
- In this way we help decarbonise industry that engages in carbon capture.

Transmission
Terminalling

We're pleased to be working with Fluxys on CO_2 transmission. It means we can now speed up deployment of our carbon capture technology and move towards net-zero emissions.

Our ambition: By 2030, offer the capacity to transport 30 TWh of hydrogen and 30 million tonnes of CO_2

The Fluxys Belgium network is excellently connected to all natural gas sources available to the European market. The gas enters via pipelines or by ship (in liquid form, LNG) and flows via our network to consumers in Belgium and to all neighbouring countries. In the service of a carbon-neutral economy, we want to develop our grid into a hydrogen and CO_2 hub in the same way.

For commercial reasons, the customers quoted here preferred to remain anonymous.

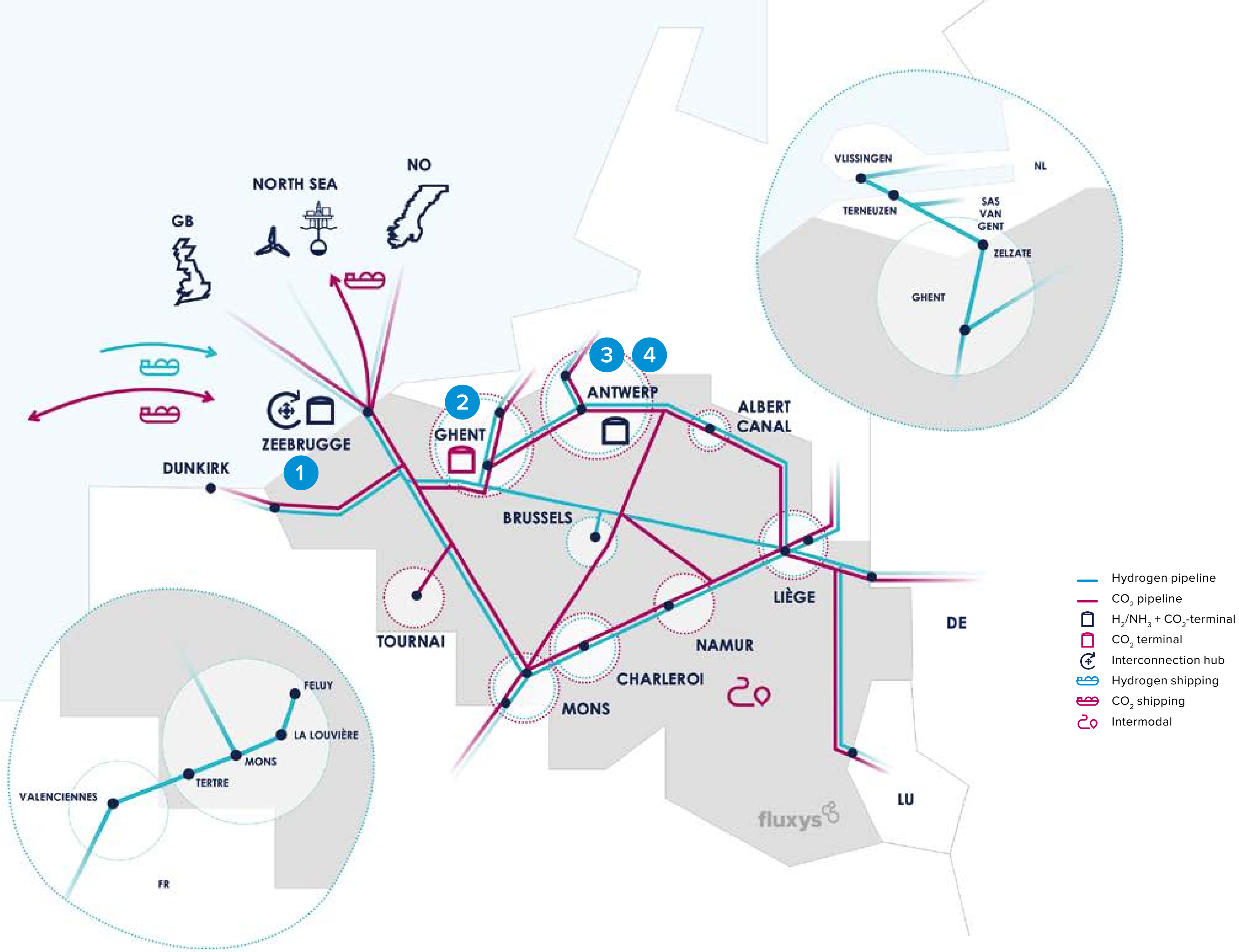
How we are developing our infrastructure into a multi-molecule hub

Hydrogen and CO_2 networks in Belgium

First transmission infrastructure in 2026

- We develop local hydrogen and CO_2 networks in line with the needs of companies in the industrial clusters
- We plan connections between the networks in the industrial clusters and with neighbouring countries to turn the hydrogen and CO_2 infrastructure into cross-border backbones
- We develop terminals for hydrogen import and CO_2 export
- In this way we are making sure that we are all set to develop the necessary hydrogen and CO_2 infrastructure for the Belgian and North-West European economy.

For more details about our approach to transporting molecules for a carbon-neutral future, see page 64



1 fluxys

Zeebrugge as a multi-molecule hub

- Importing hydrogen or derivatives and sending these products into the hydrogen network for transmission within Belgium and to neighbouring countries
- Receiving CO_2 from the CO_2 network with two export options:
  - liquefaction, intermediate storage and loading onto ships to be taken to permanent offshore storage sites;
  - transshipment to an offshore pipeline for transmission to permanent offshore storage sites.
- Status: preliminary studies

2 fluxys | ArcelorMittal | North Sea Port

Ghent Carbon Hub

- Multimodal terminal for receiving, liquefying and temporarily storing CO_2 and loading it onto ships to be taken to permanent offshore storage sites
- Status: feasibility study

Co-funded by the European Union

3 fluxys | Air Liquide

Antwerp@C CO_2 Export Hub

- Terminal for receiving, liquefying and temporarily storing CO_2 and loading it onto ships to be taken to permanent offshore storage sites
- Status: engineering & design

Co-funded by the European Union

4 fluxys | ADVARIO

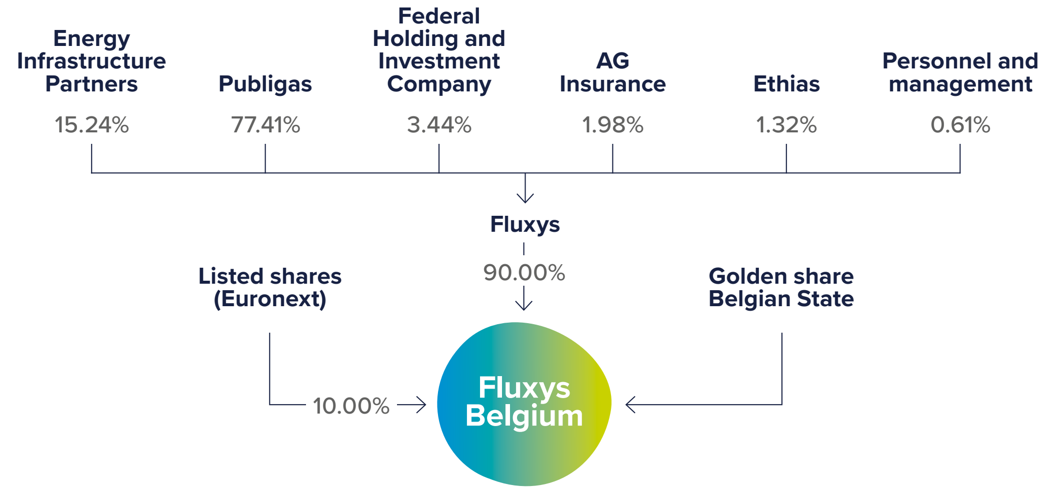
Import terminal for green liquid ammonia in Antwerp

- Multimodal terminal for import and transshipment of green liquid ammonia and its conversion into green hydrogen for transmission in the hydrogen network
- Status: feasibility study

Our structure and governance

We are a Fluxys group company

Our shareholders



Shareholding as at 29 March 2023

Fluxys Belgium is a public limited company and is part of the Fluxys group. Fluxys Belgium's capital is held by the following entities:

- Fluxys, a public limited liability company under Belgian law, holds a capital interest of 90%. This stake is divided between class B shares (83.29%) and class D shares (6.71%).
- The public holds 10% of the shares in Fluxys Belgium (class D).
- The Belgian State holds one share (the "golden share").

The total number of shares is 70,263,501. All shares are entitled to dividends.

The shares are issued in the following classes: B, D and the "golden share".

- Class B shares are and will remain registered shares.
- Class D shares are registered or dematerialised at the discretion of the shareholder who will bear any conversion charges.
- Class B shares are automatically converted into class D shares when they are transferred to a third party.
- 16.71% of the shares are listed on Euronext, 6.71% of them are held by Fluxys and the remaining 10% are held by the public.
- The golden share held by the Belgian State gives the federal government special rights should Fluxys Belgium consider selling strategic infrastructure whose sale would, in the competent minister's opinion, compromise the country's energy interests.

The Belgian State is represented by the federal Minister of Energy. For more details about the rights attached to the Belgian State's "golden share", please refer to the Corporate Governance Declaration, "Voting rights and special powers".

On 21 February 2023, CDPQ relinquished its entire stake in the parent company Fluxys, meaning that its shareholder structure at the time of writing is as follows:

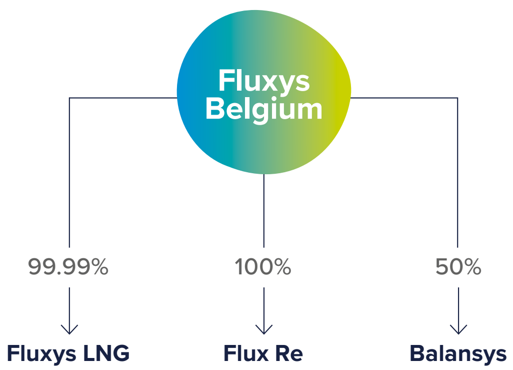
- Publigas manages the interests of Belgian municipalities in Fluxys.
- Energy Infrastructure Partners (EIP) is a Switzerland-based asset manager focusing on long-term investments in high-quality large-scale renewable energy projects and in system-critical energy infrastructure.
- AG Insurance is a Belgian insurance company that is part of the international insurance group Ageas.
- Ethias is a Belgian insurance group whose main shareholders are the Belgian Federal State, the Walloon Region, the Flemish Region and the cooperative society EthiasCo.
- The Federal Holding and Investment Company is a federal Belgian holding company set up to manage, on behalf of the Belgian State, shareholdings in public and private companies of strategic economic importance to Belgium.
- Since 2012, Fluxys group employees and management have had multiple opportunities to become Fluxys shareholders.

Our subsidiaries

Fluxys LNG (consolidated subsidiary – Fluxys Belgium holds a 99.99% stake and Flux Re a 0.01% stake). Fluxys LNG is the owner and operator of the Zeebrugge LNG terminal and sells terminalling capacity and associated services.

Flux Re (consolidated subsidiary – wholly owned by Fluxys Belgium). Flux Re is a reinsurance company under Luxembourg law.

Balansys (stake consolidated using the equity method – Fluxys Belgium holds a 50% stake). As part of the 2015 integration of the Belgian and Luxembourg gas market, Fluxys Belgium and Creos Luxembourg (the Luxembourg transmission system operator) set up the company Balansys, a joint venture in which Fluxys Belgium and Creos Luxembourg each have a 50% stake. Balansys has been the operator responsible for balancing activities for the integrated Belgian-Luxembourg gas market since 2020.



Our governance

Commitment to sustainability

Integral part of the business strategy. Fluxys Belgium's commitment to sustainability is an integral part of its business strategy. The company's purpose and business strategy guide the way in which we create sustainable value for society, within the ESG framework. The Board of Directors, as the company's most senior management body, is responsible for the strategy and its review.

Fleshed out in corporate objectives. Fluxys Belgium fleshes out its strategy and commitment to sustainability through corporate objectives in the ESG domains, which are translated every year into personal objectives in the performance management cycle.

The performance-related remuneration of the Managing Director and CEO and of the Management Team BE is based on the extent to which these objectives are achieved. This is evaluated by the Board of Directors based on advice from the Appointment and Remuneration Committee. The achievement of objectives also determines the performance-related remuneration paid to Fluxys Belgium employees. Collective bargaining agreement CAO/CCT 90, which applies to employees, also includes incentives aimed at reducing Fluxys Belgium's greenhouse gas emissions, for instance.

Governance structure

A number of advisory bodies have been established within the Board of Directors to assist the Board in its tasks: the Audit and Risk Committee, the Corporate Governance Committee, and the Appointment and Remuneration Committee.

The Board of Directors has delegated the daily management of Fluxys Belgium and has granted special powers to one of its members, who is named the Managing Director and is also the company's Chief Executive Officer (CEO). The Managing Director is authorised to entrust certain aspects of the daily management or their specific powers to a Management Team BE.

More information about corporate governance at Fluxys Belgium can be found in the Corporate Governance Declaration (see page. 131).

From left to right:
Jan Van de Vyver, Christian Leclercq, Peter Verhaeghe, Damien Adriaens, Leen Vanhamme, Nicolas Daubies, Pascal De Buck, Erik Vennekens, Rafaël Van Elst, Anne Vander Schueren, Arno Büx, Raphaël De Winter

Our Board of Directors as at 29 March 2023

Board of Directors

- Daniël Termont, Chairman of the Board of Directors
- Claude Grégoire, Vice-Chairman of the Board of Directors
- Pascal De Buck, Managing Director and CEO
- Abdellah Achaoui
- Sabine Colson*, Chairman of the Corporate Governance Committee
- Laurent Coppens
- Valentine Delwart*
- Leen Dierick
- Cécile Flandre*
- Sandra Gobert*
- Andries Gryffroy
- Gianni Infanti
- Ludo Kelchtermans, Chairman of the Audit and Risk Committee
- Roberte Kesteman*
- Anne Leclercq*
- Josly Piette
- Koen Van den Heuvel, Chairman of the Appointment and Remuneration Committee
- Wim Vermeir
- Geert Versnick
- Sandra Wauters*
- Tom Vanden Borre, federal government representative acting in an advisory capacity
- Maxime Saliez, federal government representative acting in an advisory capacity

Nicolas Daubies, Dpt. Director Group General Counsel & Company Secretary, acts as secretary to the Board of Directors.

Audit and Risk Committee

- Ludo Kelchtermans, Chairman
- Sabine Colson
- Laurent Coppens
- Cécile Flandre
- Anne Leclercq
- Wim Vermeir
- Sandra Wauters
- Pascal De Buck, Managing Director and CEO, invited in an advisory capacity

Nicolas Daubies, Dpt. Director Group General Counsel & Company Secretary, acts as secretary to the Audit and Risk Committee.

Corporate Governance Committee

- Sabine Colson, Chairman
- Laurent Coppens
- Valentine Delwart
- Sandra Gobert
- Roberte Kesteman
- Anne Leclercq
- Josly Piette
- Pascal De Buck, Managing Director and CEO, invited in an advisory capacity

Nicolas Daubies, Dpt. Director Group General Counsel & Company Secretary, acts as secretary to the Corporate Governance Committee.

Appointment and Remuneration Committee

- Koen Van den Heuvel, Chairman
- Valentine Delwart
- Cécile Flandre
- Sandra Gobert
- Gianni Infanti
- Roberte Kesteman
- Geert Versnick
- Pascal De Buck, Managing Director and CEO, invited in an advisory capacity

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

Managing Director and CEO and Management Team BE

Managing Director and CEO

- Pascal De Buck

Management Team BE

- Arno Büx, member of the Management Team BE and Chief Commercial Officer
- Christian Leclercq, member of the Management Team BE and Chief Financial Officer
- Peter Verhaeghe, member of the Management Team BE and Chief Technical Officer

Nicolas Daubies, Dpt. Director Group General Counsel & Company Secretary, acts as secretary to the Management Team BE.

The Management Team BE is assisted by an Executive Committee composed as follows:

- Damien Adriaens, Dpt. Director Commercial Regulated
- Nicolas Daubies, Dpt. Director Group General Counsel § Company Secretary
- Raphaël De Winter, Director Fluxys nextgrid
- Jan Van de Vyver, Dpt. Director Installations § Grid
- Rafaël Van Elst, Director Construction, Engineering & Gas Flow
- Anne Vander Schueren, Director Human Resources
- Leen Vanhamme, Director Transformation & Sustainability
- Erik Vennekens, Director Digital

* Independent director within the meaning of the Gas Act and as per the Belgian Code on Corporate Governance.

Our reporting

In line with GRI standards

The reporting in this sustainability report integrates non-financial information in line with Global Reporting Initiative (GRI) Standards – Core[1] and thus provides an explanation of the topics that are material to Fluxys Belgium's activities, taking into account the context and value chain within which the company operates and the interests of the company's stakeholders.

Our stakeholders

The guiding principle in mapping our stakeholders is the extent to which there is a mutual interaction between Fluxys Belgium's activities and those of potential in-scope stakeholders.

Given Fluxys Belgium's role in the energy transition, non-governmental organisations were included as stakeholders in the most recent stakeholder analysis (in 2020). Some stakeholders have also seen their role change. For example, a number of stakeholders with whom Fluxys Belgium has had long-standing commercial relations in the context of the supply of natural gas are now partners in projects to transport carbon-neutral energy carriers and CO_2 in Belgium.

1. The Global Reporting Initiative (GRI) provides a generally accepted system for sustainability reporting. This includes principles and indicators that organisations can use to uniformly and transparently report on their economic, environmental and social performance.

Stakeholder	Interaction	Expectations
Employees		
	• Constant provision of information via the intranet and a wide range of training courses and opportunities for development • Continuous contact through daily management • Regular consultation within platforms such as the works council or Committee for Prevention and Protection at Work • (In)formal chats about psychosocial risks	• Good employer • Safe, healthy working environment • Fluxys Belgium's active role in the energy transition
Local residents		
• Owners and operators of land on which, or near to which, our facilities are located or will be built • Agricultural, forestry and hunting organisations • Permit authorities, local authorities and emergency services of the towns, cities and municipalities where our infrastructure is located or where we carry out work	• Contact in connection with daily operations and the construction of infrastructure • Information campaigns • Awareness-raising campaigns • Drills with emergency services	• Information • Safety • Limitation of disruption
Shareholders		
	• Regular consultation in the company's various bodies with shareholders' representatives on matters including strategy, financial performance, risk management, and the safety and reliability of natural gas transmission	• Fluxys Belgium plays an active, positive role in the energy transition thanks to its sound financial situation and reliable infrastructure
Customers		
• The users of the transmission system, the Loenhout storage facility and the Zeebrugge LNG terminal: gas producers, wholesalers, traders and suppliers who buy capacity in the company's infrastructure to get their gas to its intended destination • Distribution system operators connected to Fluxys Belgium's network to supply gas to homes and SMEs • Consumers directly connected to the transmission system, such as industrial companies and natural-gas-fired power plants; they mostly do not purchase capacity from Fluxys Belgium but there is an operational link due to their physical connection to the transmission system	• Permanent contact through our commercial team • Annual events enabling to address towards each customer group the topics that regularly come up in day-to-day contact with the commercial team • When changing existing services, developing new services, proposing new tariffs or suggesting amendments to contractual documents, Fluxys Belgium conducts a market consultation in accordance with the regulatory framework	• Optimum availability of infrastructure capacity • Competitive tariffs • Innovative services • Customers, who take account of total emissions generated by their supply chain, have high expectations with regard to their suppliers' climate impact

Stakeholder	Interaction	Expectations
Suppliers		
	• Regular contact with the business units and the central procurement office with regard to the execution of contracts • A number of suppliers are initially in close contact with Fluxys Belgium with regard to the qualification procedure to be completed by suppliers in order to be able to supply products and services • Some suppliers receive a questionnaire about their environmental, health and safety practices	• In terms of sustainability, the suppliers' objectives and the approach adopted by Fluxys must align with each other
Authorities and regulators		
• The Belgian and European authorities and energy regulators • Financial regulators such as the Financial Services and Markets Authority (FSMA)	• Consultation and information exchange with Belgium's federal energy regulator, the Federal Public Service (FPS) Economy, regional authorities and the European energy regulator • Periodic regulated information for the FSMA via publications, reports and notifications	• Effectively functioning energy market • Safe and reliable transmission infrastructure • Initiatives regarding the energy transition
Financial institutions		
	• Periodic regulated information via publications, reports and notifications	• Transparent information about Fluxys Belgium's financial situation and sustainability policy
Non-governmental organisations		
• Non-governmental organisations active specifically in the fields of the energy transition, climate change and environmental issues such as biodiversity and water and waste management	• Consultation and exchange of views	• Transparent information and clear commitments

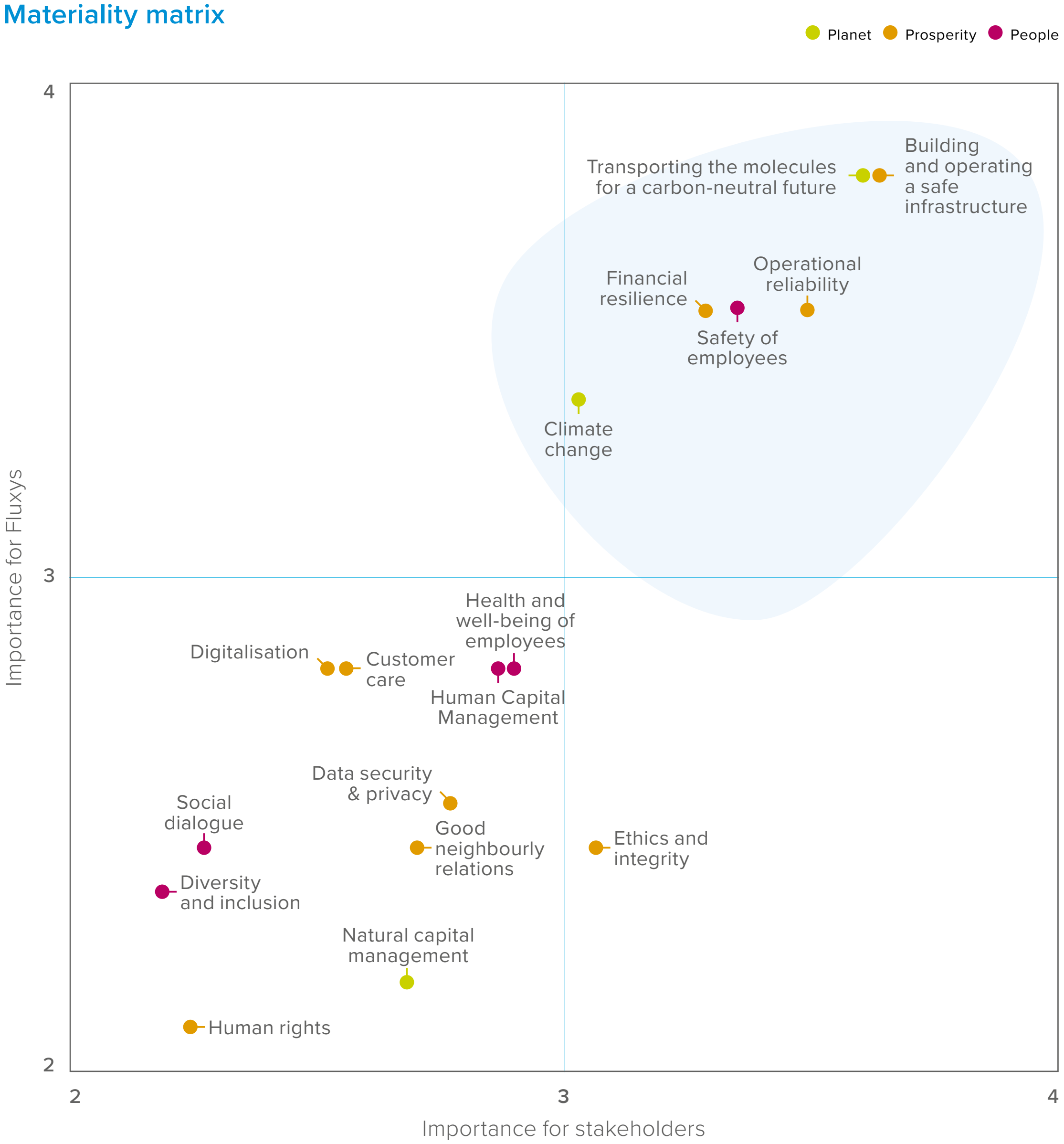
Materiality analysis

Consultation

In 2020, Fluxys Belgium consulted its stakeholders to gather their views on the significance of Fluxys Belgium's role and impact in the 17 relevant sustainability areas.

The company's Management Team was also consulted. The materiality matrix shows the consolidated result of both consultations.

Materiality matrix

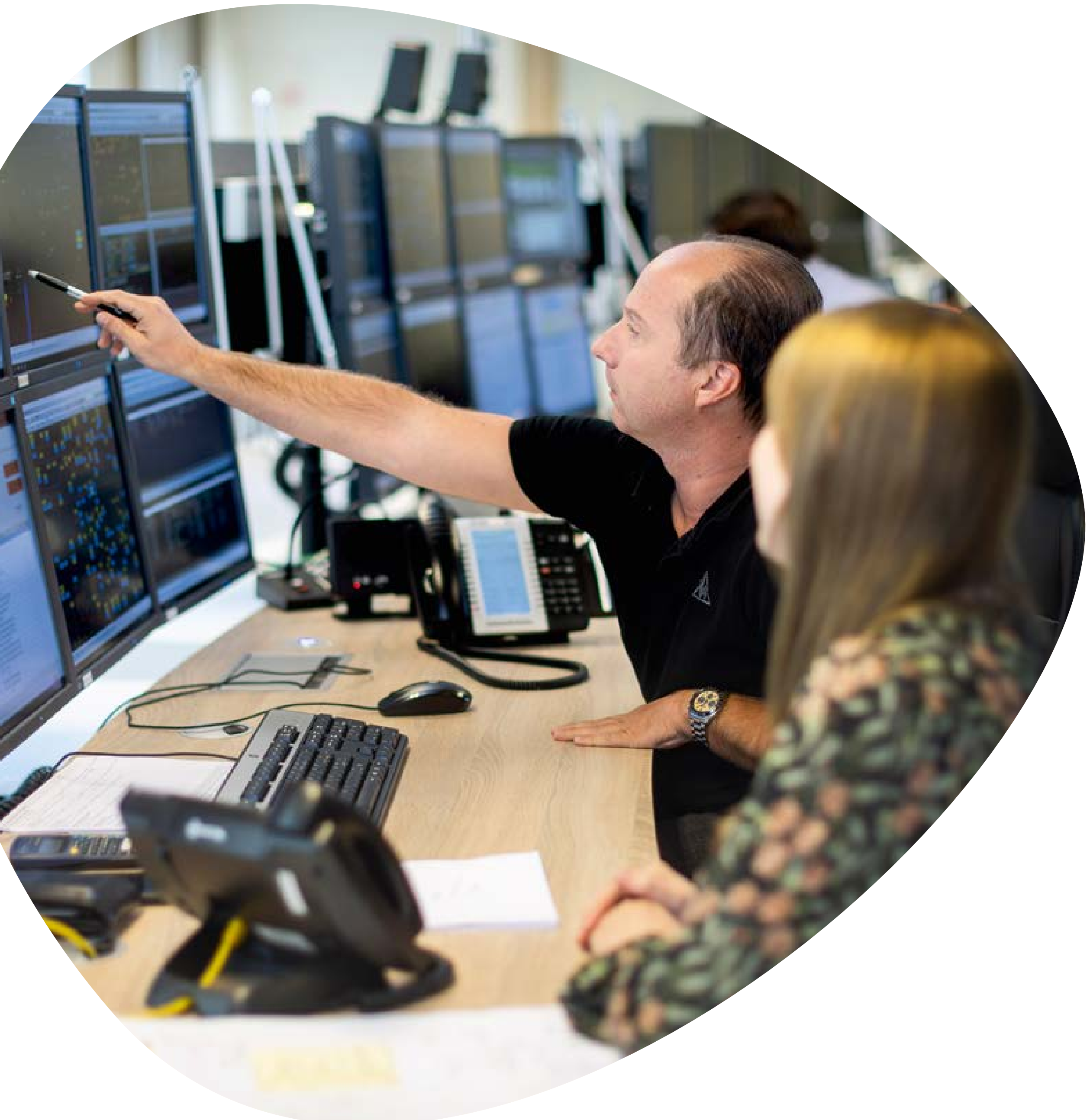


Transition to ESG framework

The material domains that emerged from the stakeholder consultation in 2020 were brought together in a Planet/Prosperity/People framework. In 2022, Fluxys Belgium decided to switch to an Environmental/Social/Governance approach. Therefore, in this report, the materiality domains are presented from that perspective.

Performance in terms of financial resilience and digitalisation *page 44.*	ESG performance		
	Environment *page 62.*	Social *page 94.*	Governance *page 124.*
• Financial resilience • Go Digital	• Climate change – Transporting molecules for a carbon-neutral future • Climate change – Systematically reducing our own climate impact • Climate change – Management of natural capital • Climate change – EU taxonomy for sustainable economic activities	• Safe and reliable infrastructure • Good neighbourly relations • Management of human capital • Employee safety, health and well-being • Social dialogue • Diversity and inclusion • Customer care • Human rights	• Ethics and integrity – efforts to combat corruption • Data protection and privacy

Our risk management



Enterprise Risk Management

Fluxys Belgium's Enterprise Risk Management (ERM) system identifies the risks that could have a short-, medium- and long-term impact on the company, people and the environment.

The risk management system is based on ISO 31000. Risk management is integrated into the company's strategy, business decisions and activities. The risk management system looks at the impact that risks can have from various angles: we not only assess the impact of risks on Fluxys' value creation, operational performance and reputation – we also consider the impact on people and the environment. Risk assessments are done in the short, medium and long term, which also makes it possible to carefully manage the risks associated with climate change. The risks and associated measures are explained in this integrated annual report for each domain in the materiality analysis (see the "Our reporting" section, page 28)

Actors in the process

Risk Management organises the risk management system and reports annually to the Audit and Risk Committee. All our departments identify, analyse and evaluate their risks and report on how risks are managed. They work with management to map out the main risks, the controls and the mitigating measures. The Audit and Risk Committee examines the risk management system and all the main risks, controls and mitigating measures each year.

Internal control process

The *three lines* of defence model is the internal control model used to manage our risks and carry out controls.

First line	Second line	Third line
• The first line of defence: the departments themselves, • which are responsible for their risks and ensure effective controls and measures.	• The second line of defence: the Risk and Compliance teams as well as, in certain cases, the Finance, Health, Safety and Environment, and ICT Security departments. • They guide those in the first line in risk management, compliance with regulations, guidelines and internal rules, budget monitoring and the security of staff, facilities, ICT systems and information.	• The independent third line of defence: Internal Audit, which is responsible for monitoring business processes. • Internal Audit performs risk-based audits to monitor the effectiveness and efficiency of the internal control system and processes. The department also performs compliance audits to ensure that guidelines and processes are consistently applied.

Insurance

Fluxys Belgium's Risk Management assesses the likelihood of the main risks connected to its activities and estimates the potential financial impact thereof.

Depending on the possibilities and the market conditions, the group mainly covers these risks via the insurance market. The comprehensive cover is 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; in specific cases, facilities also have additional cover for loss of earnings as a result of unavailability due to damage;
- protection against third-party liability by means of comprehensive, multi-level cover;
- staff programme: mandatory insurance cover (occupational accidents) and staff healthcare programme;
- protection of the vehicle fleet by means of appropriate insurance.

In some cases, risks are partially reinsured by Flux Re, a wholly-owned subsidiary of Fluxys Belgium, or are partially self-retained, for example by applying appropriate deductibles. Flux Re reinsures general and environmental liability, property risks, material damage risks and financial risks (not life or health risks).

The fact that Flux Re is fully consolidated in the group's accounts means that the cost of damages covered by the group's reinsurance policy are booked to the consolidated result. Flux Re also reinsures certain risks facing other companies in the Fluxys group. Where appropriate, compensation paid in the event of damages involving these parties will impact the Fluxys Belgium group's IFRS consolidated result.

The non-insurable risks are covered by appropriate contractual clauses, financial guarantees and regulatory mechanisms.

Consequences of the war in Ukraine

Since the outbreak of war in Ukraine, various sanctions have been taken against Russia and Belarus, as well as Russian and Belarusian companies. In this context, Fluxys Belgium Group is not active on the Russian market nor does it have any investments in Russian companies. Fluxys Belgium group sees no evidence of impairment.

In its activities, Fluxys Belgium group does business with Russian companies in accordance with European and national gas regulations and we operate in full compliance with the sanctions regime.

Fluxys LNG is the company with the largest exposure to Russian gas flows through long-term contracts. To date, however, there have been no changes to regular flows or payments. The possible termination of long-term contracts could lead to a temporary reduction in the company's economic contribution to the Fluxys Belgium group. However, the regulatory framework is such that it allows authorised revenue to be maintained and the cancellation of long-term contracts would also free up capacity in a market with high demand.

Based on the current situation and given the regulated nature of its activities, the Fluxys Belgium group's net result is generally very little affected by volume decreases. Depending on the evolution of the war and on the duration and extent of the sanctions, the Fluxys Belgium group could temporarily face adverse effects on cash income if customers were to default on payment for booked capacity.

Legal and regulatory framework

Europe

Since 3 March 2011, the European natural gas market has been regulated by the EU's third energy package:

- Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (the Third Gas Directive);
- Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (the Second Gas Regulation);
- Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators (the ACER Regulation).

In late 2021, the European Commission published its Proposal for a Directive of the European Parliament and of the Council on common rules for the internal markets in natural and renewable gases and in hydrogen, as well as its Proposal for a Regulation of the European Parliament and of the Council on the internal markets for renewable and natural gases and for hydrogen. These legislative texts are expected to be finalised and adopted by the end of 2023. It is anticipated that they will introduce a regulated framework for the European markets in renewable gas and hydrogen, along the lines of the existing framework for natural gas.

Belgium

Within the current legal and regulatory framework, a regulated system is applied to **transmission (both domestic and border-to-border), natural gas storage and LNG terminalling**. As required by EU legislation, the Belgian market is supervised and overseen by independent regulators. The supervisory authority for the regulated activities of the Fluxys Belgium group is the federal regulator, the Commission for Electricity and Gas Regulation (CREG).

A bill concerning the **transmission of hydrogen** by pipeline was introduced in the Federal Parliament by the Belgian government in January 2023.

This legislation is expected to lay down the framework for:

- granting hydrogen transmission licences;
- the appointment and certification of a hydrogen transmission system operator;
- the unbundling of hydrogen transmission from production or supply of hydrogen, natural gas, biogas, biomethane, other forms of synthetic methane or electricity;
- existing hydrogen networks.

It is anticipated that this legislation will determine the tasks of the hydrogen transmission system operator, including:

- compiling a network development plan;
- providing non-discriminatory regulated access:
- communicating transparent and objective information to market players;
- confidentially handling commercially sensitive information of users of the hydrogen transmission system;
- compiling quality standards for the transported hydrogen.

This legislation is expected to lay down the missions and powers of the regulator (CREG).

Legislation

The Belgian Gas Act forms the general basis of the regulatory framework and incorporates the main principles that apply to the activities of Fluxys Belgium and Fluxys LNG as operators of the transmission system, natural gas storage facilities and LNG terminalling facilities.

The third package of legislative measures, in particular the Directive of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas, was transposed into Belgian legislation (Act of 8 January 2012 amending the Gas Act adopted as of 21 January 2012):

- The legislation provides for a procedure for certifying operators of transmission systems, natural gas storage facilities and LNG terminalling facilities. The aim of this certification is to verify compliance with the requirements that operators be unbundled from energy suppliers or producers (ownership unbundling).
  On 27 September 2012, CREG certified Fluxys Belgium as a transmission system operator that works entirely separately from natural gas suppliers and producers. In early 2023, CREG confirmed that Energy Infrastructure Partners becoming a shareholder in the parent company Fluxys did not give rise to a recertification procedure.
- In addition to the certification procedure, the procedure for appointing operators of the transmission system, natural gas storage facilities and LNG terminalling facilities by Ministerial Decree remains unchanged. As a result, on 23 February 2010 Fluxys Belgium was appointed operator of the natural gas transmission system and of the natural gas storage facility, and Fluxys LNG was appointed operator of the LNG facility, each for a renewable 20-year term.
- CREG is also responsible for developing the methodology for transmission, storage and LNG terminalling tariffs after having undertaken a public consultation on the subject. Operators' tariff proposals must be approved by CREG.

New EU regulations adopted in 2022 against the backdrop of the European energy crisis that hit in the course of the year

Against the backdrop of the gas market in 2022, a number of legislative texts were adopted at European Union level to ensure security of supply for the EU and its Member States:

- Regulation (EU) 2022/1032 of the European Parliament and of the Council of 29 June 2022 amending Regulations (EU) 2017/1938 and (EC) No 715/2009 with regard to gas storage; in this connection, it is worth pointing that in late 2022, Fluxys Belgium was certified as a storage facility operator in accordance with Article 2 of that Regulation;
- Council Regulation (EU) 2022/2576 of 19 December 2022 enhancing solidarity through better coordination of gas purchases, reliable price benchmarks and exchanges of gas across borders;
- Council Regulation (EU) 2022/2578 of 22 December 2022 establishing a market correction mechanism to protect Union citizens and the economy against excessively high prices.

One of the aims of these various EU regulations is to optimise the use of natural gas infrastructure with a view to contributing to the security of the natural gas supply. The Fluxys Belgium group supports this objective and has made the appropriate adjustments to the regulated contracts in order to transpose the various measures provided for by these regulations.

Setting tariffs

General remarks

The decisions laying down the tariff methodology for the period 2020-2023 for the natural gas transmission network, the natural gas storage facility and the LNG facility were adopted by CREG on 28 June 2018. This methodology includes the rules which network operators must comply with when preparing, calculating and submitting tariffs and which the regulator itself will use for processing these tariff proposals.

The 2020-2023 tariff proposal for transmission services, submitted by Fluxys Belgium on 21 December 2018 and based on that methodology and the network code for tariffs (TAR-NC)[2], was reviewed, and the reviewed version was finally approved by CREG on 7 May 2019. The approved tariffs are valid for a period of four years, subject to a revision due to the regulatory assets and liabilities not developing in the way forecast in the tariff proposal. In this connection, tariffs were reduced by 10% as from 1 July 2022.

The 2020-2023 tariff proposal for storage was approved by CREG on 20 December 2019. An amended tariff proposal providing for a tariff reduction was approved on 1 July 2021.

The latest updated tariff proposal for terminalling services was approved by CREG on 2 December 2021. This tariff proposal resulted in the introduction of a regulated tariff for the new BioLNG liquefaction services, and the confirmation of the tariff for the virtual liquefaction service, renamed the backhaul liquefaction service.

The decisions laying down the tariff methodology for the period 2024-2027 for the natural gas transmission system, the natural gas storage facility and the LNG facility were adopted by CREG on 30 June 2022.

Fluxys Belgium held a consultation on the tariff proposal for transmission services for 2024-2027, running from 6 October to 6 December 2022. The tariff proposal for these services was submitted to CREG in late December 2022.

Principles

The tariffs must cover the estimated authorised costs necessary to be able to efficiently provide the regulated services. The basis for this calculation is accounting according to the Belgian accounting rules (Belgian GAAP). The estimated authorised costs include the operating costs, financial expenditure and regulated return.

Operating costs. Operating costs are divided into:

- manageable costs, for which efficiency gains or losses are distributed proportionately between Fluxys Belgium (rise or fall in authorised profits) and regulatory assets or liabilities (increase or decrease in future tariffs), based on a decreasing scale;
- non-manageable costs, for which deviations from the estimated value are fully allocated to the regulatory assets or liabilities.

This encourages Fluxys Belgium to perform its activities in the most efficient way possible. Every saving vis-à-vis the estimated and authorised budget for manageable costs has a positive impact on pre-tax gross profits. On the other hand, exceeding budgets negatively affects the profit for the period.

The following are considered non-manageable costs: depreciation, costs relating to other regulated activities, subsidies, taxes, duties and expenses relating to the purchase of commodity products for the operation of the network.

Personnel expenses, business expenses and miscellaneous goods and services are considered to be manageable costs.

Financial expenditure. Financial expenditure relates to net financial costs, i.e. after deduction of financial revenue. Therefore, all actual and reasonable encountered financial costs relating to debt financing for regulated activities are included in the tariffs.

Regulated return. The regulated return is the return on equity invested as authorised by the regulatory provisions governing the return on capital investment. This is calculated using a remuneration rate applied to the average annual value of the regulated assets (average Regulatory Asset Base, or RAB). This RAB, based on the calculations under Belgian accounting standards, varies from year to year, taking into account new investments, decommissioning, authorised depreciation and changes in operating capital.

2. On 16 March 2017, a network code for tariffs (TAR-NC) was adopted by European Commission Regulation (EU) No 2017/460. This aims to achieve a harmonised transmission tariff methodology for gas transmission in Europe and lays down a range of requirements regarding publication of data and consultation on tariffs.

This remuneration rate for the period 2020-2023 is made up of two components determined by the equity/RAB ratio (= factor S).

1. For the part of the equity up to and including 40% of the RAB, the following applies: average RAB in year n x S[3] x [(OLO n)+(ß x risk premium)] x (1+α)
   The remuneration rate (in %) as established by CREG for year n is equal to the sum of the risk-free interest rate (based on 10-year Belgian linear bonds (OLO)) and a premium for the risk of the shares market, weighted with the applicable beta factor. The reference financial ratio of 40% is applied to the average value of the Regulatory Asset Base (RAB) to calculate the reference equity.

   The parameters for the tariff period 2020-2023 are as follows:
   – OLO n = for year n, the risk-free interest rate of 2.4%, based on 10-year OLO;
   – ß (system operator risk vis-à-vis global market risk) = 0.65 for transmission; 0.78 for storage and terminalling;
   – risk premium = 3.5%;
   – α (illiquidity premium) = 20% for transmission, storage and terminalling.
2. For the part of the equity that exceeds 40%, the following applies: average RAB in year n x (S - 40%) x (OLO n + 70 basis points).
   CREG encourages a ratio between equity and regulated asset base that is as close as possible to 40%. As a result, the part of the reference equity that exceeds 40% of the regulated asset base is remunerated at a lower rate: the risk-free interest rate, set at 2.4%, for the regulatory period 2020-2023, based on 10-year Belgian linear bonds (OLO) and a premium of 70 basis points.

The methodology also provides for a specific level of authorised margin for new facilities or extensions to facilities to promote security of supply, or for new facilities or extensions to storage or LNG facilities. The remuneration of the LNG facilities combines a RAB x WACC formula for the initial and replacement investments of the terminal with an IRR (Internal Rate of Return) formula for extension investments undertaken since 2004. CREG establishes a maximum IRR per investment, which Fluxys LNG may not exceed to ensure the attractiveness and competitiveness of the LNG terminal.

The principles of the IRR model for the extension investments by Fluxys LNG were approved by CREG and confirmed in its subsequent decisions.

Finally, in addition to the incentive relating to controlling manageable costs, incentives for the tariff period 2020-2023 may be granted to the system operator to encourage it to:

• support market integration and security of supply;
• enhance its performance;
• carry out vital research and development activities;
• play an active role in the energy transition;
• boost the quality of its services and stimulate additional sales of capacity.

3. Capped at 40%.

Annual settlement

Every year, a settlement is made which compares the estimated amounts with the actual ones. These differences, excluding incentives in favour of or against the margin, are recognised as a regulatory asset or liability in the year in which they occur. This settlement applies to the various aspects of the tariff calculation, namely:

• the estimated sales volumes used to determine the unit tariff;
• operating costs;
• financial expenditure;
• the regulated return.

This results in a regulatory liability (if for example the actual volumes exceed the estimates or if the operating costs, financial expenditure or regulated return are lower than expected) or a regulatory asset (in the opposite case).

This regulatory liability or asset is taken into account in accordance with the tariff methodology to set the tariffs for the next regulatory periods.

When devising the 2020-2023 tariff proposal, the natural gas transmission system operator identified the expected development in the adjustment account for the relevant regulatory period. This includes an expected decrease in the adjustment account of up to €100 million by the end of 2023.

If the actual development varies considerably from what was expected, whether positively or negatively, this deviation will result in an automatic correction of the tariffs for the gas transmission network.

A specific regulatory liability for auction premiums has been created. This regulatory liability is allocated in accordance with the Network Code.

Code of conduct

The code of conduct determines the terms and conditions of access to the natural gas infrastructure. These terms and conditions constitute a set of operational and commercial rules that form the framework within which Fluxys Belgium and Fluxys LNG enter into contracts with users of the transmission, storage and LNG infrastructure.

An initial code of conduct was established by the Royal Decree of 4 April 2003. From 2006 onwards, several market consultations on the evolution of this code were organised by CREG. The Royal Decree of 23 December 2010 on a code of conduct, which came into effect on 15 January 2011, was replaced by the code of conduct adopted by CREG in 2022.

Specifically, following a public consultation, CREG adopted, by decision of 31 August 2022, a new natural gas code of conduct which came into force in 2022.

That code of conduct states that operators (for transmission, storage and LNG terminalling) must draw up a range of documents which are subject to CREG's approval: the access code, the services programme, the standard agreements and the connection agreements. When drawing up these documents, the network users concerned are consulted to ensure that the services offered are aligned as closely as possible with market needs. Only after this consultation can the documents be submitted to CREG for approval.

Compliance officer

A compliance officer was appointed at Fluxys Belgium and Fluxys LNG in the framework of the commitments regarding non-discriminatory access to the network. A compliance programme was drawn up with the specific details of the rules of conduct that members of staff must comply with regarding non-discrimination, transparency and handling of confidential information. Fluxys Belgium's Board of Directors and management approved the compliance programme.

Every year, a report on compliance with the programme is drawn up for both Fluxys Belgium and Fluxys LNG, and the results are published on the website: https://www.fluxys.com/en/company/fluxys-belgium/investors.