

# Investor Presentation

## Fluvius System Operator cv

May 2022

*fluvius.*



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*Please read the disclaimer on page 53*



# Executive Summary



<b>Strategic Importance to the Flemish Region</b>	<ul style="list-style-type: none"><li>• Fluvius covers 100 % of the municipalities of the Flemish Region</li><li>• Fluvius operates essential utility services for Flemish society: electricity &amp; gas distribution, public lighting, sewerage, CATV networks, district heating and the associated data management</li></ul>
<b>Favourable Regulatory Environment for Energy (Revenue Cap)</b>	<ul style="list-style-type: none"><li>• The energy DSOs have a legally based regional monopoly for electricity &amp; gas distribution</li><li>• Tariff mechanism with a 4-year regulatory period based on a revenue cap model, including a fair profit margin as remuneration on invested capital</li></ul>
<b>Efficient Operating Scheme</b>	<ul style="list-style-type: none"><li>• Group structure with one single operating company (Fluvius System Operator) for 11 utility companies allows for efficient operations and benefits of scale</li><li>• Pooling of staff and all operational, financial and management activities at the operating company</li></ul>
<b>Solid Cash Flow Visibility</b>	<ul style="list-style-type: none"><li>• Predictable revenue streams across all activities</li></ul>
<b>Low Risk Profile</b>	<ul style="list-style-type: none"><li>• Low business risk – the DSOs and other intermunicipalities are not involved in competitive activities</li><li>• Intermunicipalities own 100% of their network infrastructure</li></ul>
<b>Favourable Economic Dynamics</b>	<ul style="list-style-type: none"><li>• Flanders (<i>Fitch: AA stable; Moody's: Aa3 stable</i>) is Belgium's (<i>Moody's: Aa3 stable</i>) most populated region (6,7 million inhabitants - Jan 2021). Moody's rating of Flanders is based on a diversified, wealthy and innovative economy, solid institutions and governance strength and decisive response to pandemic which limits risks of LT scarring (7 Dec 2021)</li><li>• Fluvius has solid investment grade ratings: A3 (stable) at Moody's – A+ (negative) at Creditreform</li></ul>
<b>CSR &amp; ESG policy</b>	<ul style="list-style-type: none"><li>• Fluvius is a key partner for the Flemish Climate &amp; Energy Plan – Fluvius itself has developed its Vision 2050 pathway to Flemish climate neutrality</li><li>• Sustainable Development Goals (SDGs) are at the heart of Fluvius's impact-based CSR strategy</li></ul>

# 1. Corporate profile



# Who is Fluvius?



**Fluvius is the overall name for 11 Flemish intermunicipal utility companies and their operating company Fluvius System Operator (FSO), and some other related entities.**

- Fluvius System Operator CV was created on 1 July 2018 through the merger by absorption of the former operating companies Eandis System Operator CVBA and Infrax CVBA.
- Fluvius System Operator is the operating arm of, and is 100% owned by, 11 intermunicipal companies that are themselves 100% owned by the Flemish municipalities.
- These 11 intermunicipal shareholders of Fluvius have operations in
  - (1) the regulated E&G distribution (10 intermunicipal DSOs) – 94,7% of FY 2021 turnover (IFRS)
  - (2) the regulated sewerage system (4 intermunicipalities)
  - (3) the contract-based cable TV (CATV) infrastructure business (4 intermunicipalities)
- Fluvius serves approx. 3,6 million access points for electricity, 2,3 million for gas, 0,6 million for sewerage, 1,1 million for CATV and 1,2 million public lighting points. Its utility services cover all 300 Flemish municipalities. Fluvius is Flanders' largest utility company.
- Fluvius is strategically important to the Flemish Region and the latter's policy aim of realising Europe's climate and energy objectives.

# Corporate Profile

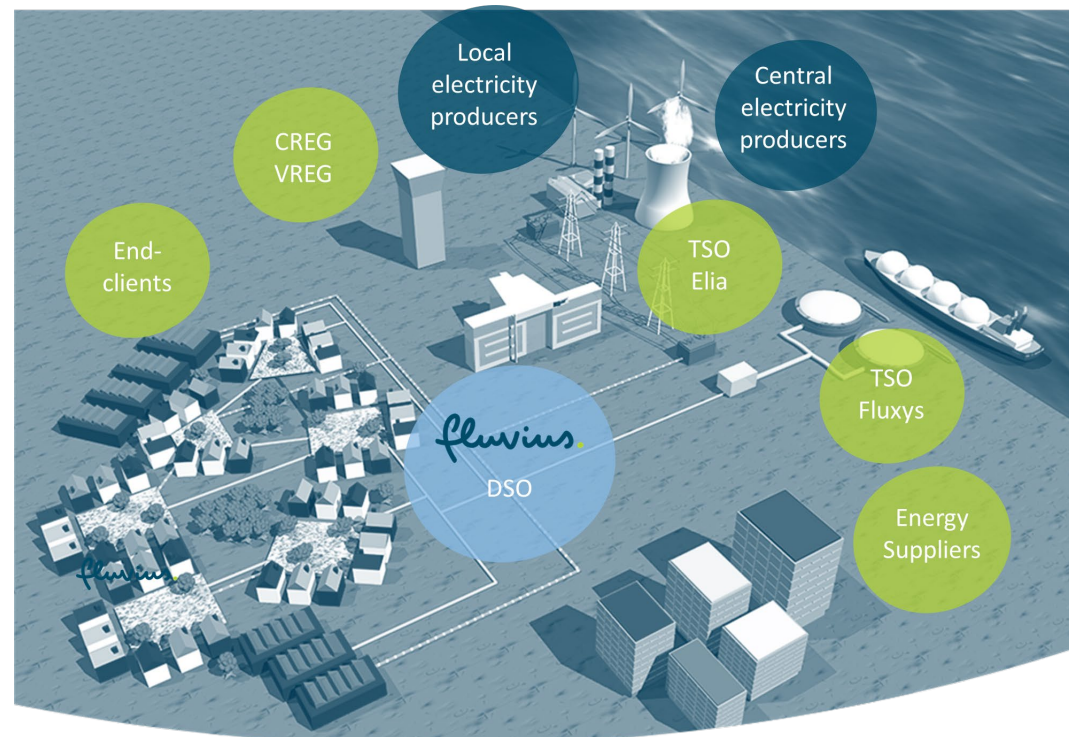
## Key figures (31 Dec 2021)

- 7,7 million connections of which
  - 3,6 million for electricity
  - 2,3 million for gas
  - 1,1 million for CATV
  - 0,6 million for sewerage
- 5.497 employees
- EUR 1,1 billion gross investments in 2021
- 1,2 million public lighting points

## Operating area



## Who's who in the Flemish energy market



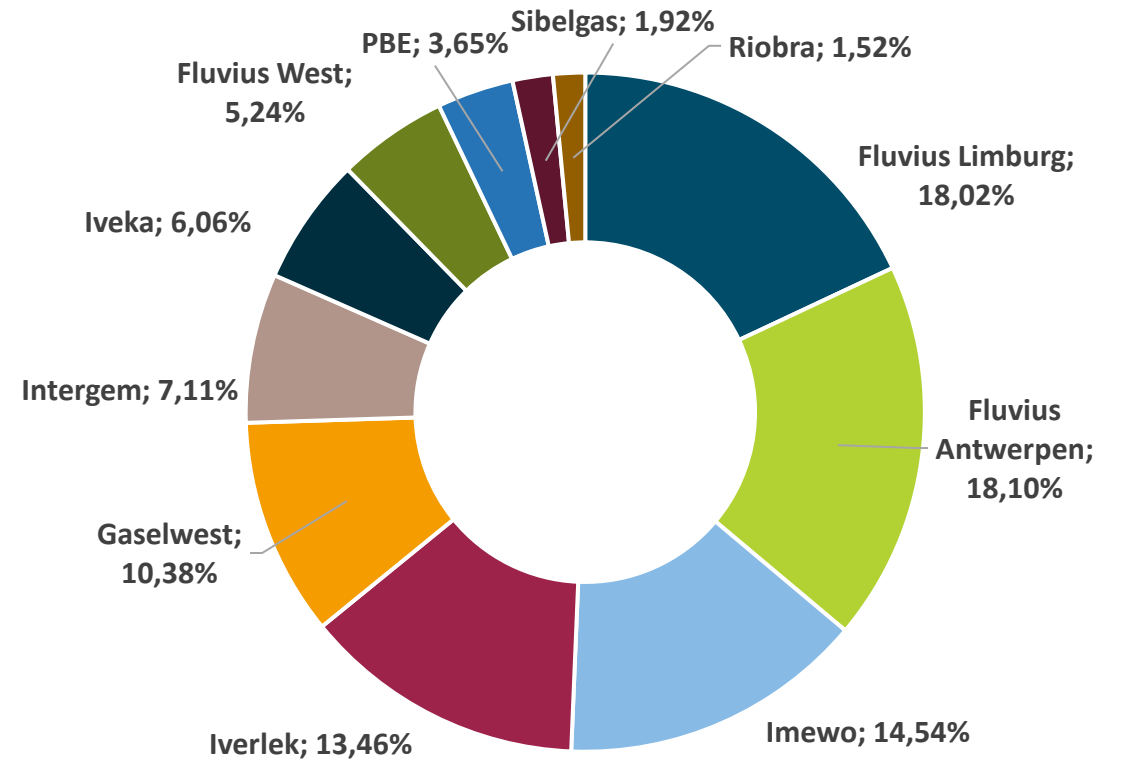
# Fluvius's Corporate Structure (1/2)

## Group structure



*Other entities:* mainly Fluvius OV, the entity employing statutory staff; also includes Interkabel

## Fluvius System Operator's shareholders: 11 intermunicipalities



# Fluvius's Corporate Structure (2/2)



## Rationale behind structure

### Transparent and flexible corporate structure:

- flexible decision-making structure allows for maintaining close links with 300 municipalities
- structure reflects clear division of powers within the Fluvius Economic Group
- coordination and information flow between both levels is guaranteed

## Group's organisation

### 11 INTERMUNICIPALITIES

- each with its own Board of Directors
- responsible for the intermunicipality's corporate matters and the relations with the local authorities



### FLUVIUS SYSTEM OPERATOR

- Board of Directors with 20 members
- responsible for general strategy & policy, financing, Fluvius corporate matters

## Fluvius Management Committee

CEO:	Frank VANBRABANT
Supply Chain:	Raf BELLERS
Customer Services:	Tom CEUPPENS
Data Management:	Guy COSYNS
Network Operations:	Wim DEN ROOVER
Network Management:	Jean Pierre HOLLEVOET
Finance & ICT:	David TERMONT (CFO)
Secretary-General:	Nick VANDEVELDE
HR:	Ilse VAN BELLE
Regulation & Strategy:	Filip VAN ROMPAEY



*Frank VANBRABANT, CEO*



# Corporate Strategy

## Our mission

Sustainably connect society through our multi-utility networks.

## Our vision

Fluvius wants to become THE Flemish multi-utility company, in collaboration with all stakeholders.

## Our strategy

We focus on one Fluvius. We create a maximum of synergies across different networks. We ensure future-proof networks. We put the customer and the employee at the centre in everything we do.



## 2. Overview of activities

# Electricity & Gas

## Characteristics

- electricity & gas distribution grids owned by 10 intermunicipal DSOs – all DSOs are operated by their operating company Fluvius System Operator
- area of operations: entire Flemish Region
- legal basis: Flemish Energy Decree – regulator: VREG
- tariffs and shareholder margin established by VREG based on regulated tariff methodology
- electricity: 3,6 million access points – 87.070 km LV and 46.841 km MV grid – 31,8 TWh transported – EUR 641,6 million invested (2021)
- gas: 2,3 million access points – 47.727 km low-pressure and 10.060 km mid-pressure grid – 65,6 TWh transported – EUR 239,3 million invested (2021)
- EUR 10,24 billion RAB value of networks (end 2021): EUR 6,47 billion (E) and EUR 3,77 billion (G)

## Electricity & Gas entities

- |                      |              |
|----------------------|--------------|
| 1. Fluvius Antwerpen | 6. Intergem  |
| 2. Fluvius Limburg   | 7. Iveka     |
| 3. Fluvius West      | 8. Iverlek   |
| 4. Gaselwest         | 9. PBE       |
| 5. Imewo             | 10. Sibelgas |

# Sewerage

## Characteristics

- sewerage networks owned by 4 intermunicipal companies that also execute operational activities on these networks (purification excluded)
- 86 municipalities (= 29% of Flemish municipalities) as per 31 Dec 2021
- legal basis: Flemish Drinking Water Decree (compliant with EU Water Framework Directive) - regulator: Flemish Environment Agency (VMM)
- fixed assets: EUR 1,3 billion – EUR 89,5 million invested in 2021
- tariffication aspects:
  - remuneration imposed by law; pass-through via invoice of water companies to end consumers; maximum tariff set
  - drinking water tariff (*'integral water bill'*) consists of (1) water volume consumed, (2) sewerage contribution and (3) purification contribution (= Aquafin). For each element, there is a fixed contribution, a basic tariff (€/m<sup>3</sup>) and a higher comfort tariff (€/m<sup>3</sup>)
  - drinking water companies pay a municipal wastewater contribution to the sewerage intermunicipalities
  - VMM and municipalities pay investment grants (75% of total expansion investments) to the sewerage operators
  - all profits are reinvested – no dividend pay-outs

## Sewerage entities

- |                      |                 |
|----------------------|-----------------|
| 1. Fluvius Antwerpen | 3. Fluvius West |
| 2. Fluvius Limburg   | 4. Riobra       |

# Cable Distribution

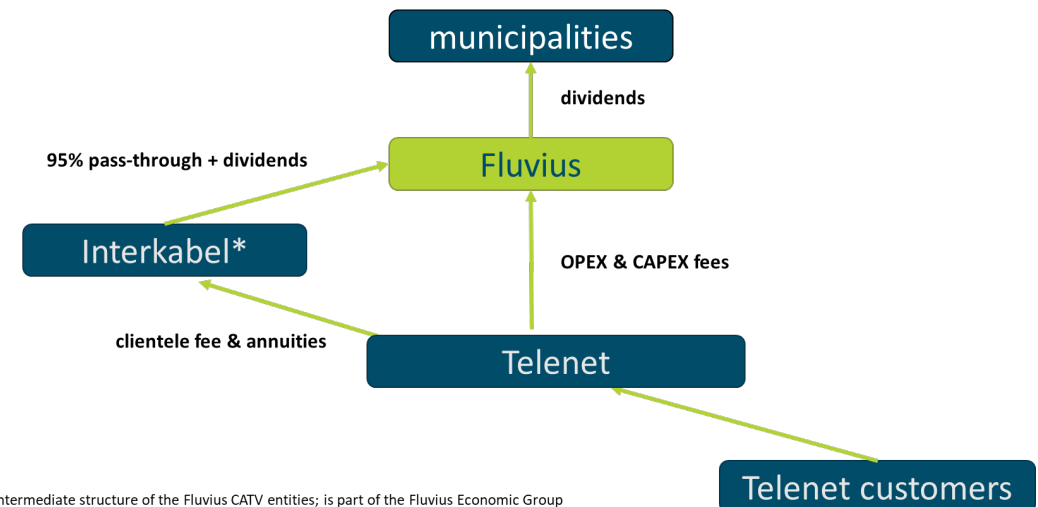
## Characteristics

- cable networks owned by 4 intermunicipalities, covering 103 municipalities
- regulators: BIPT and VRM
- commercial operations on the networks run by telecom operator Telenet, based on 2 LT-contracts (1996 lease contract and 2008 commercial contract) – no commercial risks at Fluvius entities
- financial aspects: Fluvius receives from Telenet:
  - **OPEX fee:** fixed remuneration that follows Telenet's operational costs, until 2046, registered as turnover (2021: EUR 27,1 million) → other operating income
  - **CAPEX fee:** 6,25% ROI, until 2046, registered as financial revenue (2021: EUR 28,8 million) → financial income
  - **clientele fee:** 60% on original investments, fixed indexed amount until 2046, EUR 5,8 million in 2021 → revenue (95%) and dividends received (5%)
  - **annuities:** 40% on original investments, OLO interest, until end of depreciations (currently until 2023), EUR 1,2 million in 2021 → revenue (95%) and dividends received (5%)
  - clientele fee and annuities paid out to **Interkabel**, but 95% pass-through to Fluvius, together with Interkabel dividends. Interkabel is part of the Fluvius Economic Group, hence all income is included in Fluvius Economic Group

## CATV entities

1. Fluvius Antwerpen
2. Fluvius Limburg
3. Fluvius West
4. PBE

## Financial flows



\*Interkabel: intermediate structure of the Fluvius CATV entities; is part of the Fluvius Economic Group



# Digital Metering

## Characteristics

**Objective:** provide all Flemish end consumers with digital metering for E&G; only digital meters installed since 1 July 2019; total of 4,2 million meters E and 3,2 million meters G to be installed

### Timeline:

- current roll-out scenario: 80% to be installed by 2024, 100% by 2029

### Budget (cash out, E&G) 2020-2028:

- EUR 2.379,1 million, of which EUR 2.338,0 million capex – included in regulatory grid tariffs

### Benefits:

- enables remote meter reading/controlling, consumption monitoring by end consumer and grid operator (smart grid)
- average energy savings of 2,6% for E and 1,0% for G; contributes to combat against energy fraud and allows innovative services
- allows us to take up our role as data manager in the energy transition

### Current status:

- > 1,5 million digital meters E&G installed (April 2022)
- simultaneous installation with digital water meter in collaboration with major Flemish water companies since 2022

# Public Lighting

## Characteristics

Partly regulated activity (e.g. investments in new grids) and partly non-regulated (e.g. new poles and fixtures)

### “Public Lighting 2.0”:

- aims at switch of entire municipal public lighting (1,2 million lighting points) to LED by 2030 – in line with decision by Flemish Government
- most municipalities have transferred their public lighting infrastructure to their DSO; relevant costs processed through electricity dividend

**State of roll-out (31 Dec 2021):** 28,3% already LED equipped

**Capex budget:** EUR 925,5 million (2020-2030)

- increased energy efficiency (up to 45% energy efficiency gains)
- allows for more versatility: dimming, active on/off switching, ..
- also used for monument lighting

# Fast data network

## Characteristics

*[28 October 2021]*

Fluvius reached a **non-binding term sheet with Telenet** about evolving their hybrid fibre coax network in Flanders, including FttH technology. The network will be fully open, ultra-performant, accessible to all Flemish households and businesses and built at the lowest societal cost.

Both partners will create a **new self-funding independent infrastructure company**, contributing their existing assets, as well as develop new build fibre assets in the future.

Detailed negotiations ongoing (April 2022).

fluvius.

 telenet

fluvius.

# District heating

## Characteristics

Fluvius is already involved in 17 local projects, with a direct focus on the grid (building & maintenance) – requirements for potential projects:

- availability of nearby heating source
- technical feasibility
- positive business case



# Fluvius's activities

## Data Management

Data management has been entrusted to the DSOs and their operating company Fluvius System Operator as an additional activity (by Flemish Energy Decree and Flemish Energy Resolution).

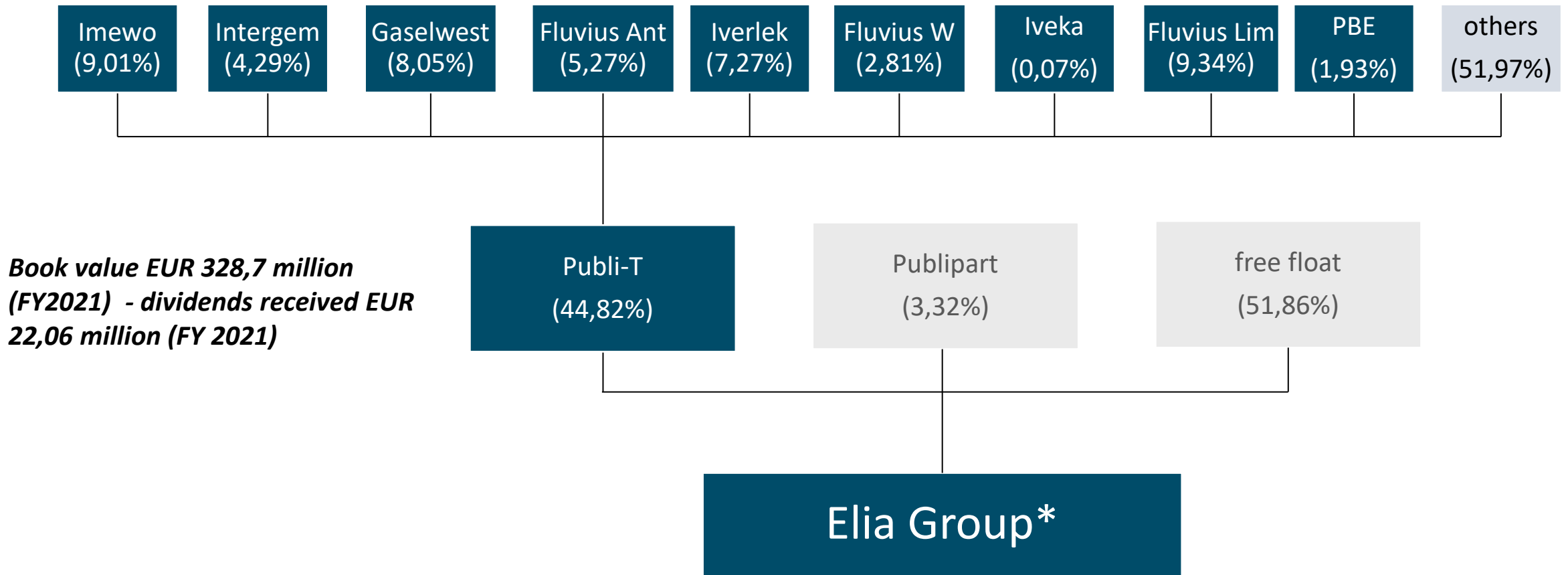
Bound by strict provisions on independent operations and protection of data & privacy (GDPR).

Fluvius's subsidiary **Atrias** functions as the federal data hub for the energy sector – Central Market System for Belgium went live on 1 November 2021.



# Fluvius's activities: financial participations (1)

## Belgian electricity TSO Elia through Publi-T

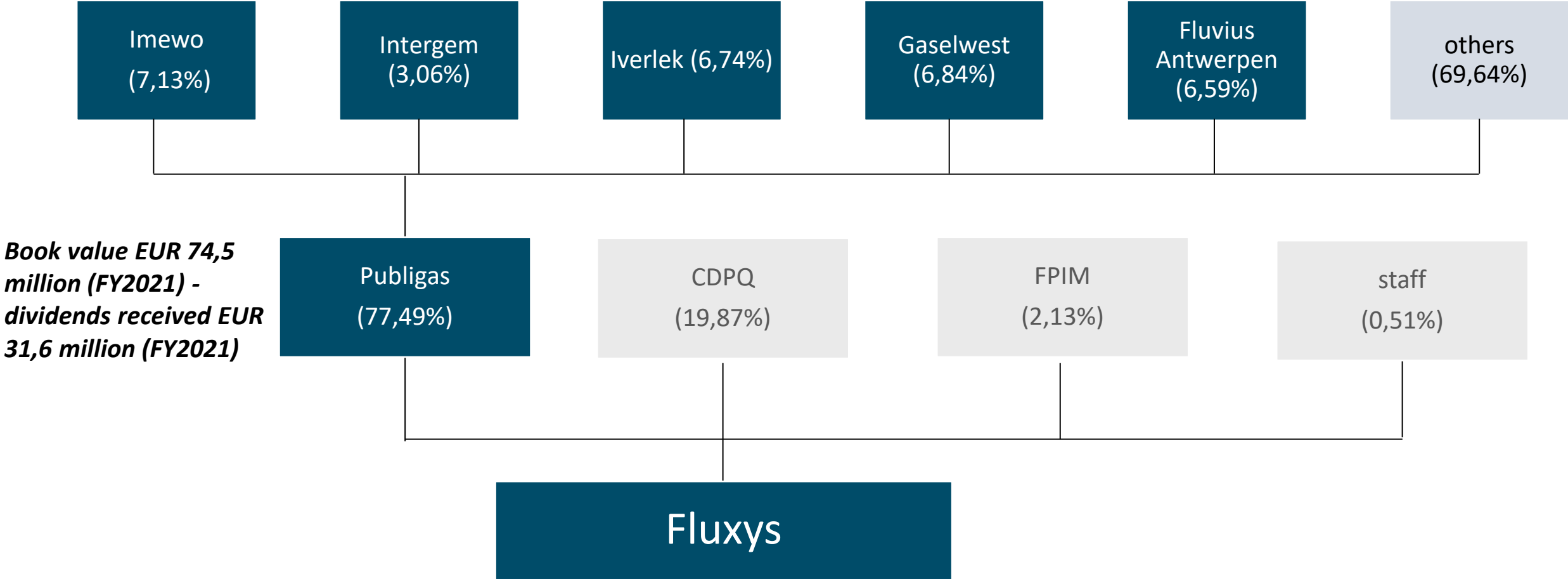


\* including 80% of German TSO 50 Hertz



# Fluvius's activities: financial participations (2)

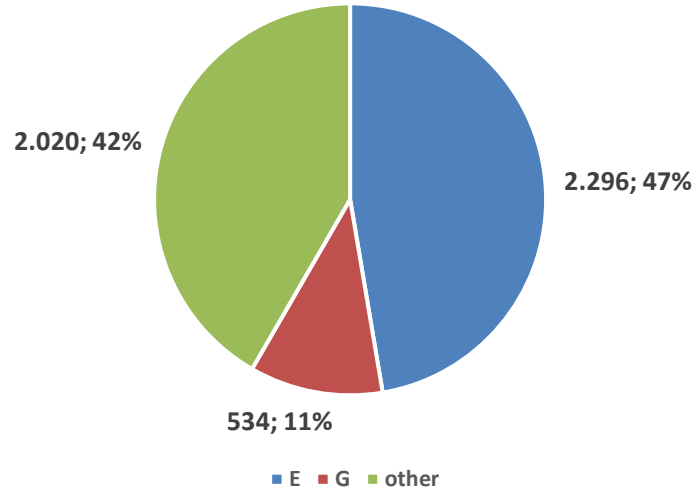
## Belgian gas TSO Fluxys through Publigas



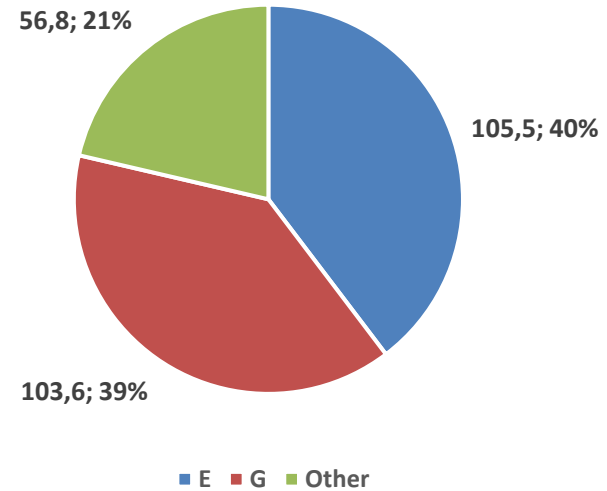
# Breakdown of activities



Turnover breakdown 2021 (Fl. Econ. Group, BE-GAAP)



Profit breakdown 2021 (Fl. Econ. Group, BE-GAAP)



## Comments

- all figures in million EUR – FY 2021
- other activities include sewerage, CATV distribution, public lighting, financial participations, data management, ...

# 3. Recent events

# 2021 Highlights



**14 Jan:** Constitutional Court partly annuls Flemish Decree on digital metering – Fluvius reschedules its roll-out programme to maintain the 80% roll-out by end 2024 target

**8 Apr:** EMTN private placement: EUR 100 million, 12 y, 0,81%

**22 Apr:** 2 tranches of EIB loan drawn: EUR 200 million, 7 y, 0,137%

**27 Apr:** Antwerp Correctional Court acquits 2 Fluvius managers, but finds Fluvius guilty - with suspended sentence - for the gas explosion of 3 Sep 2019 in Wilrijk (Antwerp) – Fluvius has appealed this conviction

**7 Jun:** EMTN bond: EUR 500 million, 7 y, 0,25%

**Jul/Aug:** Fluvius teams volunteer to help Walloon colleagues after severe floodings

**28 Oct:** non-binding agreement with Telenet on data network of the future

**29 Oct:** Moody's changes rating outlook to stable from negative, affirming A3 rating

**1 Nov:** go-live of the Atrias Central Market System

**24 Nov:** EMTN bond: EUR 600 million, 10 y, 0,625%

**Dec:** Fluvius becomes supplier-of-last-resort for customers of 2 energy suppliers in financial distress



# 2022 Highlights

**Jan:** Flemish decision to extend the compulsory period for Fluvius to act as supplier-of-last-resort from 60 days to 12 months

**Jan/Feb:** substantial declines in gas consumption registered due to sharp price hikes and geopolitical tensions

**28 Feb:** Autonomous Municipal Company of Knokke-Heist joins Synductis as new shareholder

**18 Mar:** Fluvius becomes supplier-of-last-resort for customers of a third supplier in financial distress

**1 Apr:** Fluvius reaches milestone of 1,5 million digital meters installed



# 4. Corporate Social Responsibility & Sustainability

# Corporate Social Responsibility in Fluvius's DNA

Fluvius has embedded Corporate Social Responsibility (CSR) into its corporate strategy:

1. Fluvius clearly focuses on the following **strategical objectives**:
  - to take up a (co)steering role to realize the energy transition and climate objectives in Flanders (cfr. Flemish Energy & Climate Plan 2021-2030),
  - to be a 'great place to work',
  - to take into account ethical, environmental and social aspects in our decision-making,
  - to take care of safety.
2. To outline its CSR and sustainability commitments, Fluvius's Board of Directors has approved the **CSR Charter** (see next slide).
3. The company's **CSR policy** sets concrete objectives enabling Fluvius to make responsible choices on ethical, environmental and social aspects.
4. Fluvius's policy document '**Vision 2050**' outlines the company's role in supporting local authorities and the Flemish climate strategy towards climate neutrality by 2050.

**Fluvius's mission is to sustainably connect society with its multi-utility solutions**



**Fluvius external reviews on CSR :**  
*SDG Pioneer by Unitar (2020) / Great Place To Work (2020) / 'Prime' by ISS ESG (2019) / Bronze CSR rating by Ecovadis (2021) / ESG screened by Vigeo Eiris and Sustainalytics*

# Fluvius CSR Charter commits the entire company



## Fluvius CSR Charter commitments

- 1 The Board of Directors, management and all employees commit to striving for a broadly supported CSR & sustainability policy
- 2 Taking into account its company values
- 3 Respecting CSR and sustainability aspects into its activities
- 4 Contributing to the achievement of the SDGs (where relevant)
- 5 Engaging all of its stakeholders to the greatest extent possible
- 6 Communicating transparently on the results



**Fluvius opts for a clear, honest and transparent communication to its stakeholders on its CSR and sustainability policies and performance**



# Fluvius CSR policy setting priorities

Fluvius CSR & sustainability policy is based on an extensive **materiality and urgency analysis**, after online consultation of stakeholders (o.a. employees, shareholders' representatives, investors, interest groups, supply chain partners and energy suppliers).

All 19 material topics, but especially the 6 most material ones, identified during this analysis have been linked to the **UN Sustainable Development Goals (SDGs)**.

For the implementation, the Fluvius **CSR Roadmap** indicates the priorities between relevant SDGs and detailed targets to be pursued.

For 2021-2024, we focus on (a) enhancing sustainability in our supply chain and (b) reducing our own carbon footprint.

1	Grid reliability	9	INDUSTRY INNOVATION AND INFRASTRUCTURE
2	Customer satisfaction	8	DECENT WORK AND ECONOMIC GROWTH
3	Data privacy	16	PEACE, JUSTICE AND STRONG INSTITUTIONS
11	Safety of end consumers and local residents	11	DECENT WORK AND ECONOMIC GROWTH
12	Socially acceptable tariffs	7	AFFORDABLE AND CLEAN ENERGY
17	Employees' safety	8	DECENT WORK AND ECONOMIC GROWTH



# VISION 2050 – Fluvius path to climate neutrality by 2050

In its policy document *Vision 2050 – the Flemish energy grids of the future* Fluvius has set :  
**4 objectives** and **12 actions**



## *we help to reduce energy consumption*

1. we enable large-scale energy savings by digital metering
2. we go for the complete and smart switch of public lighting to LED

## *we maximise the availability of renewable energy*

3. we help to make the Flemish vehicle fleet greener
4. where economically feasible, heating grids get priority
5. we give a new, climate-neutral future to the Flemish gas grids
6. we retrofit gas grids into hydrogen grids for industrial purposes
7. we restructure electricity grids to absorb a maximum of renewable energy

## *we make the Flemish energy grids future-proof*

8. we aim at automatisisation and a thorough digitalisation

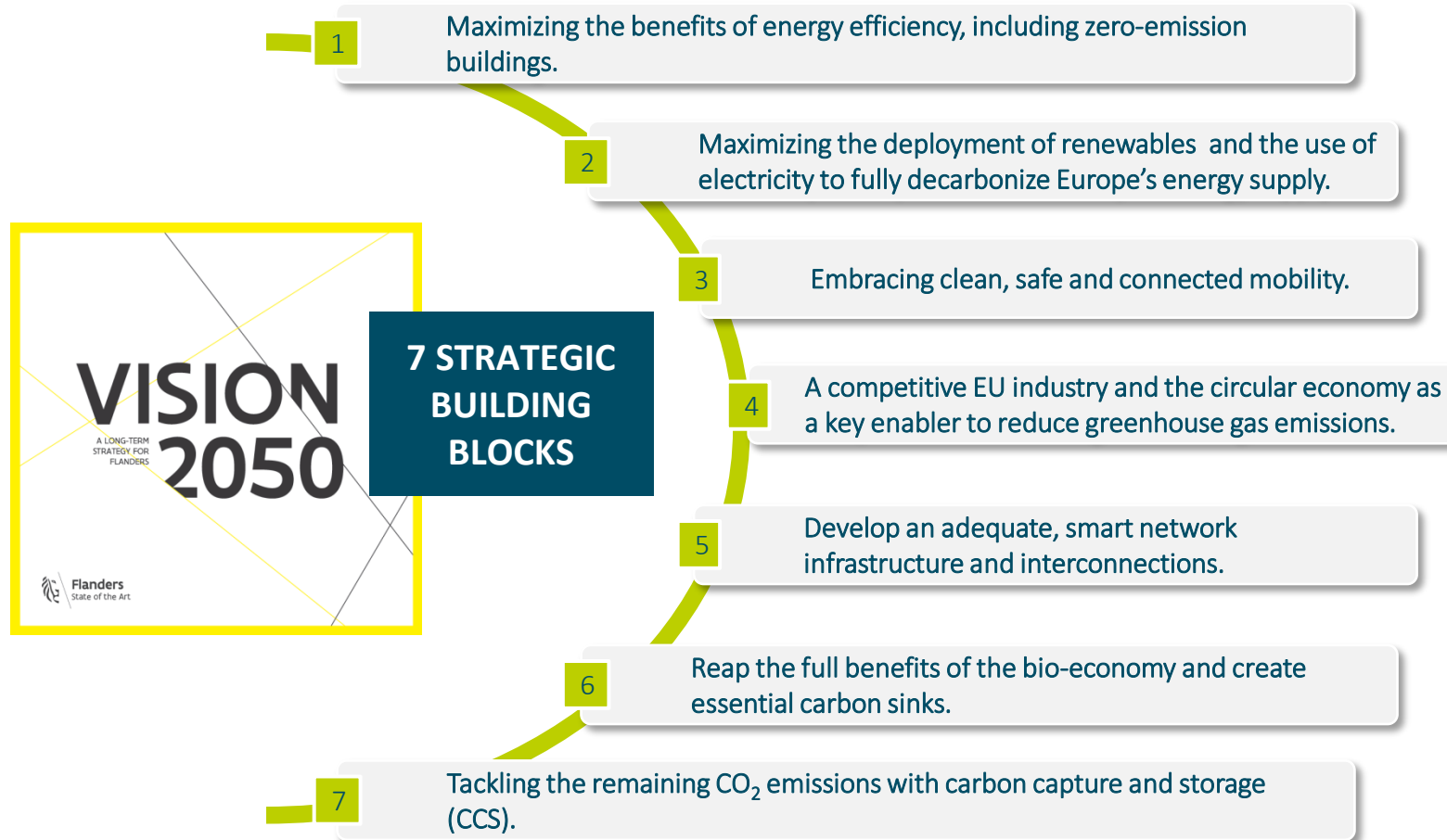
## *we create new possibilities for our customers*

9. rational use of energy must be beneficial for the customer
10. we inform more and communicate pro-actively about the electricity grid's condition
11. we welcome alternative solutions that help to avoid grid investments
12. we go towards 'hybrid grids' thus creating new collaborations

**Fluvius is the preferred partner of local authorities in their drive towards energy efficiency. The overall aim is to realise the Flemish climate objectives.**

# VISION 2050 – Supporting the Flemish Climate Strategy

According to the Paris Agreements, the Flemish government has set guidelines through the 7 European strategic building blocks to become carbon neutral in 2050.



Fluvius's **environmental policy** supports the Flemish strategy by aiming at:

- full compliance with all legislative norms and obligations,
- implementation of maximum circularity and green mobility where feasible and,
- reduction of carbon footprint of our own activities.

**Fluvius Environmental Plan 2021-2025 implements these policy objectives**

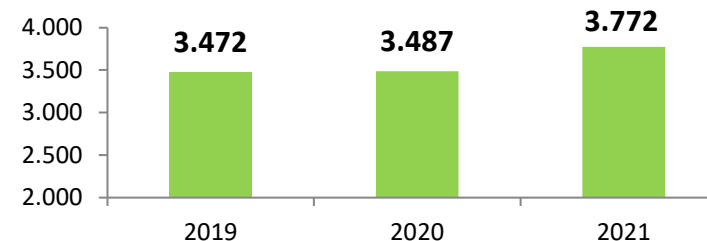
# 5. Financial Profile

# Financial Overview

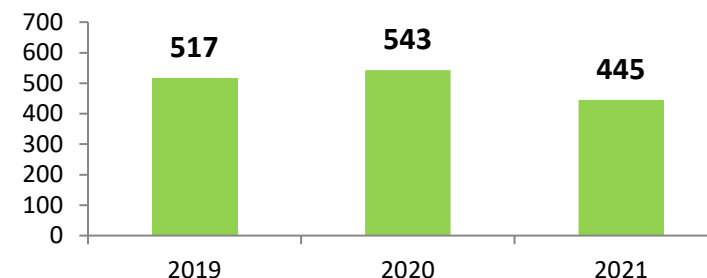
## Summary Financials FY 2019-2021 (IFRS, Ec. Group)

(in mio €)	2019	2020	2021
<b>Statement of Profit/Loss</b>			
revenues	2.991	2.924	3.038
operating revenues	3.472	3.487	3.772
operating expenses	-2.955	-2.945	-3.327
<b>result from operations</b>	<b>517</b>	<b>543</b>	<b>445</b>
net financial income/expenses	-101	-69	-43
profit before tax	416	473	402
profit for the period	331	363	302
other comprehensive income	296	290	451
<b>total comprehensive income</b>	<b>626</b>	<b>652</b>	<b>753</b>
<b>Statement of Financial Position</b>			
current assets	965	927	1.329
non-current assets	14.191	14.899	15.371
<b>total assets</b>	<b>15.155</b>	<b>15.826</b>	<b>16.699</b>
total equity (attributable to parent)	6.408	6.757	7.247
non-current liabilities	6.949	6.933	7.330
current liabilities	1.799	2.136	2.122
<b>total liabilities</b>	<b>8.748</b>	<b>9.069</b>	<b>9.452</b>
<b>total equity &amp; liabilities</b>	<b>15.155</b>	<b>15.826</b>	<b>16.699</b>
<b>Cash Flow Statement</b>			
net CF from operating activities	768	816	615
net CF from investing activities	-572	-847	-893
net CF used in/from financing activities	-153	-2	336
net increase/decrease of cash/cash equivalents	43	-33	58
cash + cash equivalents at 31 Dec	65	31	89

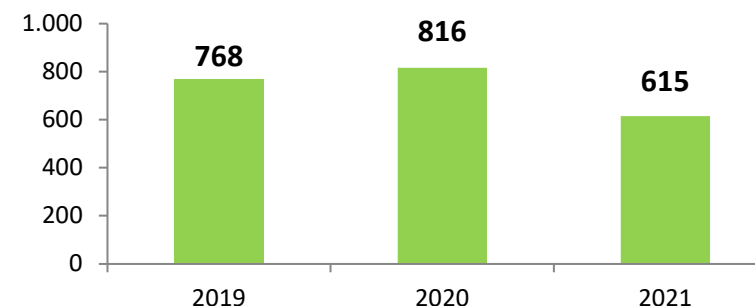
### Operating revenue (in mio €)



### Results from operations (in mio €)



### Net CF from operating activities (in mio €)





# Liquidity Facilities (31 Dec 2021)

A	Cash facility / Straight Loan	TOTAL : 225 mEUR (2 banks)	} total amount: 925 mEUR
B	Revolving Credit	TOTAL : 200 mEUR (1 bank)	
C	Commercial Paper Programme ("Thesauriebewijzen")	TOTAL : 500 mEUR (4 banks)	

A and B are committed facilities;  
C is a non-committed programme

**Amounts drawn: 430,12 million EUR (= 46,5%)**

under A: 130,12 million EUR

under B: 0 million EUR

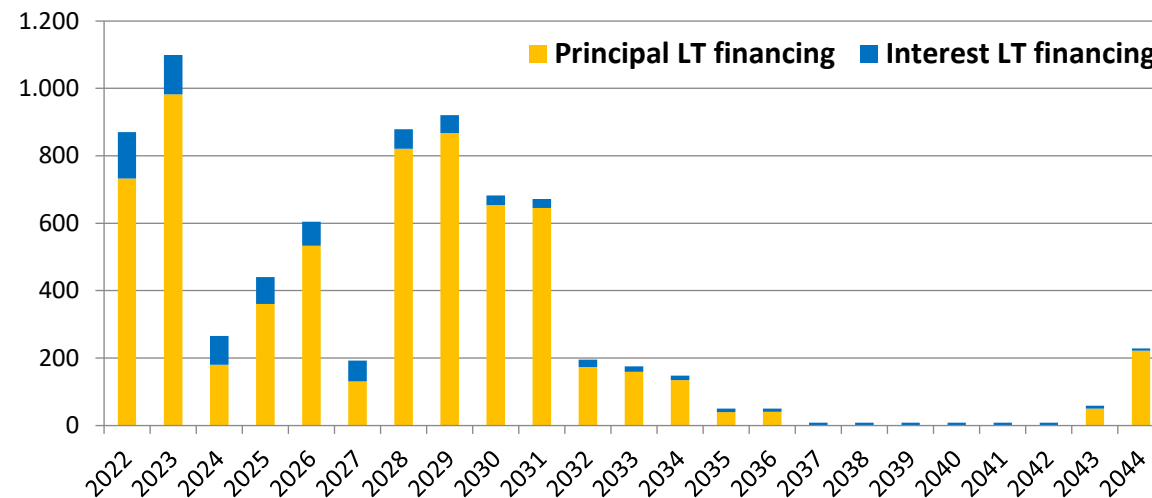
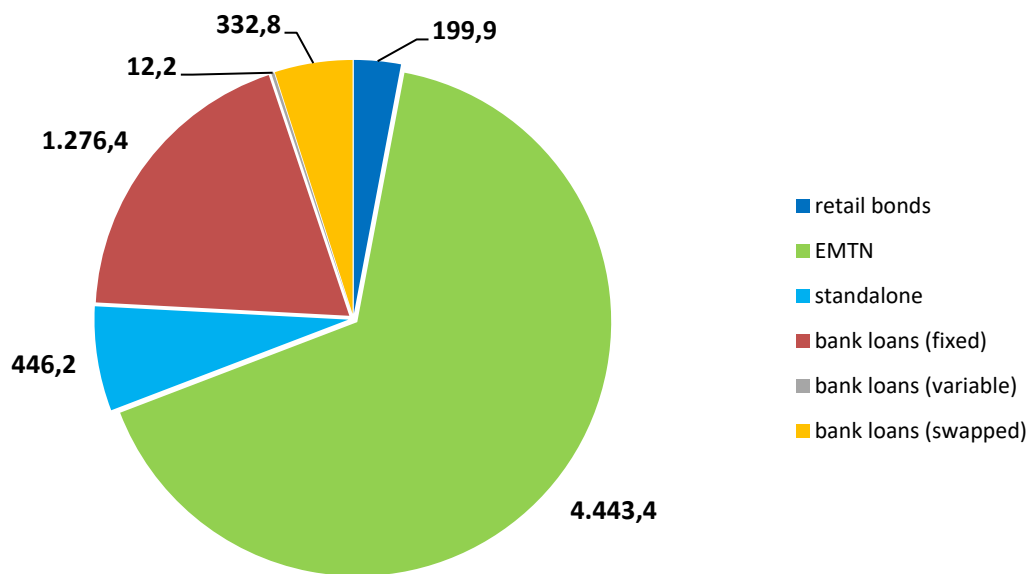
under C: 300 million EUR

# Debt Profile (Fluvius Economic Group, 31 Dec 2021)



LT debt by instrument: 6.710,9 million EUR

Maturity profile of outstanding LT debt (in million EUR)



- average maturity: 6 years 7 months
- average interest rate: 2,03%
- last EMTN transaction: settlement 24 Nov 2021, 10y maturity, 0,625% coupon rate
- total EMTN programme: EUR 5 billion EUR (36% already issued)

# Fluvius's activities

## E&G Distribution - Regulated Tarification 2021-2024



- 13 August 2020: VREG published the 2021-2024 DSO tariff methodology E&G
- basic tarification principles for tariff period 2021-2024:
  - **Exogenous costs:** budget-based annual allowed income with 'regulatory balances' budget/reality to be compensated for in subsequent tariff periods
  - **Endogenous costs** (depreciations, opex, invested capital remuneration): incentive regulation on revenues ('revenue cap' or 'allowed income'), based on historic sector trend:
    - $AI_n = AI_{n-1} * [1 + CPI - x - x' - x'' + q]$  in which
      - AI = allowed income
      - x = annual efficiency factor
      - x' = Fluvius merger efficiency factor – 2022: 14,4 million EUR for E and 7,1 million EUR for G (2021-2024: 73 million EUR for E; 36 million EUR for G)
      - x'' = frontier shift factor (*only for gas*)
    - CPI = consumer price index
    - q = quality factor (*not yet implemented*)
  - includes a RAB x WACC-based margin for shareholders with gearing [= debt/(debt+equity)] set at 60%
    - cost of equity: pre-tax at 5,44% / post-tax at 4,08%, based on CAPM with
      - risk-free rate = 0,09%
      - market risk premium at 4,81% (E & G) and equity  $\beta$  at 0,83
    - cost of debt at 2,14%
  - RAB-based WACC at 3,50% (pre-tax)
  - **Revaluation surpluses in RAB:** remuneration to be fully phased out over 8-year period (2021-2028)
  - **Regulatory balances** for a.o. (1) exogenous costs, (2) distributed volumes, (3) inflation, (4) corporate taxes, (5) tariff changes within the year

# Moody's Corporate Rating of Fluvius

**A3 (stable)**

## Credit Strengths:

- robust credit quality of the DSOs that own the company
- low business risk profile of regulated E & G distribution network operations in Flanders
- Implementation of measures mitigating the impact of lower allowed returns in the 2021-2024 regulatory period, including a new dividend policy
- transparent and generally supportive regulatory framework, albeit relatively new and untested in the context of European regulated network peers
- two-notch uplift for potential state support based on high dependence between Fluvius and its shareholding 300 municipalities

## Credit Challenges:

- relatively weak position in rating category with financial profile at the bottom the A3 range
- decreasing return over time on revaluation surpluses over 8 years
- cost savings target of EUR 150 million by 2024 imposed by regulator will trigger additional efficiency requirements from 2021

*from: Moody's Press Release  
(29 October 2021)*

29 Oct 2021

Paris, October 29, 2021 -- Moody's Investors Service ("Moody's") has today changed the outlook of Fluvius System Operator CV ("Fluvius") to stable from negative. Concurrently, the rating agency has affirmed Fluvius's backed (P)A3 senior unsecured MTN programme ratings, and its A3 backed long-term issuer rating and backed senior unsecured ratings.

### RATINGS RATIONALE

#### RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Fluvius will maintain financial metrics above the minimum guidance for its A3 rating, namely Funds from operations (FFO)/net debt above 8% and net debt / fixed assets less revaluation surpluses not above 80%, over the 2021-24 regulatory period. This follows decisions by the Boards of Fluvius and its shareholders to implement measures mitigating the impact of lower allowed returns in the 2021-24 regulatory period, including a new dividend policy, and the allowance of c.EUR22 million of advances for smart meter investments in 2022 by the Flemish energy regulator, the VREG. Nevertheless, Fluvius is expected to remain relatively weakly positioned in its rating category, with a financial profile at the bottom of the range expected for an A3 rating during the regulatory period.

The mitigating measures voted by the Boards of Fluvius and its shareholders include a dividend policy for regulated electric and gas activities whereby each of Fluvius's shareholders with an equity/Regulated Asset Base ratio above 40% (in Belgian GAAP) will receive up to 120% dividend payout while those shareholders with equity/F

### Rating history:

- **12 Oct 2011 - 13 Mar 2014 : A1 (negative)**
- **13 Mar 2014 - 2 Dec 2014: A1 (stable)**
- **2 Dec 2014 – 14 Dec 2016: A1 (negative)**
- **14 Dec 2016 – 29 Jun 2018: A3 (stable)**
- **29 Jun 2018 – 25 July 2019: A3 (positive)**
- **25 Jul 2019 – 10 Sep 2020: A3 (stable)**
- **10 Sep 2020 – 29 Oct 2021: A3 (negative)**
- **since 29 Oct 2021: A3 (stable)**

# Creditreform's Corporate Rating of Fluvius

**A+ (negative)**

## Credit positives:

- government-related company, 100% public shareholders
- strategic importance for Flemish Region
- low business risk profile of DSOs with legally based regional monopoly in E&G distribution
- stable and predictable cash flows from regulated and contractual activities
- overall steady business performance in 2020
- Measures to mitigate negative impact of tariff methodology 2021-2024
- proven access to capital markets

## Credit negatives:

- expected significant decline in revenues and cash-flows from 2021 due to VREG tariff methodology 2021-2024 E&G
- decrease in WACC and remuneration base
- Increased investment needs, high fixed costs

*from: Creditreform Rating Action - Update  
(28 October 2021)*

## Rating history:

- **18 Jan 2017 - 27 Oct 2020: A+ stable**
- **as from 27 Oct 2020: A+ negative**

**Creditreform Corporate Issuer / Issue Rating**  
Fluvius System Operator CV

**Creditreform**  
**Rating**

28 October 2021 – Neuss, Germany

### Rating Action / Update:

**Creditreform Rating has affirmed the solicited corporate issuer rating of Fluvius System Operator CV, at A+ with negative outlook.**

Creditreform Rating (CRA) has affirmed the solicited corporate issuer rating of Fluvius System Operator CV, as well as the solicited corporate issue rating of the long-term local currency senior unsecured issues, at A+ with negative outlook.

For more information about our rating assessment of Fluvius System Operator CV, especially with regard to its earlier development and structural, business, and financial risks, please refer to our full rating report and update report, published on 26 July 2019 and on 27 October 2020 respectively, which can be found on our website under published ratings.

Fluvius System Operator CV (hereinafter also 'the Company', 'FSO' or 'Fluvius') is the multi-utility network operator in Flanders, Belgium. The Company was founded on 1 July 2018 through the merger of the former operating companies Eandis System Operator CVBA and Infrax CVBA, and is responsible for the distribution of electricity, gas, sewerage, cables, and heat. FSO, its consolidated subsidiaries, and the Mission Entrusted Associations (MEA's) together form the Economic Group Fluvius (hereinafter also 'the Group' or 'EGF').

Fluvius System Operator CV operates on a cost-price basis on behalf of the MEA's, which are the network owners, and given the fact that they provide guarantees for debt obligations of FSO, we have considered the Group as a whole in order to assess the creditworthiness of FSO.

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# 6. Green financing

# FLUVIUS Green Financing Framework



## 1° Use of Proceeds

- Fluvius allocates the net proceeds of each issue of a Green Financing Instrument under its Green Financing Framework to a portfolio of new and/or existing Eligible Green Projects (EGP).
- The projects will contribute to either one of the following environmental objectives: climate change mitigation, climate change adaptation and sustainable use and protection of water and marine resources\*

## 2° Process for Project Evaluation & Selection

- Fluvius's ESG policy is prepared, elaborated and coordinated by the Fluvius CSR Board, and validated/approved by its Management Committee and Board of Directors
- The evaluation and selection of projects to be financed by Green Financing Instruments is carried out by a dedicated Green Finance Committee, composed by senior representatives of Fluvius and chaired by the company's CFO.

## 3° Management of Proceeds

- The process for the management of proceeds is handled by Fluvius's Corporate Finance team, which monitors and keeps track of the amount of net proceeds from GFI instruments and the investments made in Eligible Green Projects.
- Fluvius tends to allocate the full amount of proceeds within the next 24 months following the issuance of GFI's.
- An amount equal to the net proceeds from the Green Financing Instruments will be deposited in Fluvius's general account.

## 4° Reporting

- Fluvius to report annually on the allocation and impact of its net proceeds during the lifetime of outstanding Green Financing Instruments.
- Starting one year after issuance and until the maturity date of the relevant Green Financing Instrument Fluvius will request on an annual basis external assurance on the allocation and impact of the Green Financing Instrument issued under this Green Financing Framework.

## 5° External Review

- ISS-ESG delivered an external opinion (Nov 2020) certifying that the Fluvius Green Financing Framework is aligned with:
  - the Green Bond Principles (GBP) developed by the International Capital Markets Association (ICMA)
  - the Green Loan Principles (GLP) developed by the Loan Market Association (LMA)
  - the Green Bond Standards as proposed by the European Union



\* 3 of the EU Taxonomy's Environmental Objectives

# Allocation & Impact Reporting



## Allocation Reporting

Fluvius's report discusses the allocation of its net proceeds during the lifetime of outstanding Green Financing Instruments. The allocation report presents details on:

- The year of investment.
- The aggregate amounts of investments and expenses allocated to Eligible Green Projects, along with examples and description of emblematic Eligible Green Projects.
- The balance of unallocated proceeds (if any) invested in cash, the cash pooling system within the Fluvius Economic Group and/or cash equivalents.
- The proportion of new financing and refinancing.

## Impact Reporting

The actual metrics reported on depend upon the nature of the relevant projects, e.g.:

Fluvius projects	Examples of metrics
Energy efficiency	<ul style="list-style-type: none"> <li>• energy saved (kWh)</li> <li>• digital meters installed (number of)</li> <li>• public lighting points switched to led (number of)</li> <li>• GHG emissions avoided (tCO<sub>2</sub>e)</li> </ul>
Water infrastructure	<ul style="list-style-type: none"> <li>• sewerage grid constructed (km)</li> <li>• new connections to sewerage grid (number of)</li> <li>• volume of wastewater collected (m<sup>3</sup>)</li> </ul>
District heating	<ul style="list-style-type: none"> <li>• grid length (km)</li> <li>• supply of heat generated (GJ)</li> <li>• GHG emissions avoided (tCO<sub>2</sub>e)</li> </ul>
Clean transport	<ul style="list-style-type: none"> <li>• EV charging points installed (number of)</li> <li>• e-vehicles purchased for Fluvius's fleet (number of)</li> <li>• e-vehicles purchased for municipal fleets (number of)</li> <li>• CO<sub>2</sub> emissions avoided (tonnes)</li> </ul>
Renewable energy	<ul style="list-style-type: none"> <li>• renewable generation projects connected to the distribution grid (number of projects)</li> <li>• renewable generation capacity connected to the distribution grid (MW)</li> </ul>

# Eligible Project Portfolio for 2020-2030 Green Bond



## 1. roll-out of digital meter electricity

- enables decentralised electricity production, grid monitoring and switch from fossil to renewable energy
- allows end consumer to monitor/adapt consumption and enhances energy-efficiency of household appliances
- maximum recycling of waste streams

→ SDG 7 & 9

## 2. switch to LED technology in all municipal public lighting

- 1,2 million lighting points involved
- enhances energy-efficiency (up to 45% efficiency gains)
- creates more flexibility in grid management (dimming, on/off switching, follow-me technology, ...)

→ SDG 7 & 9

## 3. sewerage grids

- both expansion and renewal projects
- contributes to 2027 European objectives on clean surface water
- increases sewerage grid connection rates

→ SDG 6

## 4. facilitation of renewable electricity generation

- adaptation of distribution grid to cope with additional renewable generation capacity to be connected (cabins, switch and transformer stations, MV/LV grids, teletransmission, metering infrastructure, ...)

→ SDG 6, 9 & 11

# 7. Key takeaways for investors



# Our strengths – key considerations for investors

- largest Flemish multi-utility with over 7 million customers served, covering the entire Flemish region
- 100% public shareholders
- low risk business profile across all activities
- robust capital structure and strong liquidity position; stable and predictable cash flows due to regulated tariffs or long-term contractual agreements
- highly experienced management and staff
- strategic focus on operational excellence, synergies and sustainability

**Solidity of Fluvius's credit is confirmed by investment grade ratings from Moody's and Creditreform Rating.**



# Contact Fluvius



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*fluvius.*





# 8. Annexes

- Creation of Fluvius
- Regulatory framework
- Tarification
- Financials
- Fluvius's subsidiaries
- Intermunicipalities & DSOs
- Abbreviations & disclaimer

# Fluvius System Operator: creation through merger operation

## Rationale for the merger of Eandis, Infrax and Integan:

- shared interests of Eandis and Infrax had increased over time
- energy transition and switch towards system operator role require a maximum of benefits of scale
- synergies will benefit consumers' end tariffs
- fully in line with Flemish Government's policy: one single Flemish multi-utility operating company

## Important dates:

- legal kick-off: 1 July 2018 - commercial kick-off: 7 February 2019

## Legal aspects of the merger:

- merger by absorption, followed by change of name into Fluvius System Operator
- shareholders: existing shareholders of Eandis, Infrax and Integan became shareholders of Fluvius System Operator in a 'share-based only' transaction - no other direct impact on DSOs
- bondholders: ex-Eandis bonds remain guaranteed by ex-Eandis DSO guarantors, ex-Infrax bonds remain guaranteed by ex-Infrax DSO guarantors. Bonds issued by Fluvius System Operator are being guaranteed by all Fluvius shareholders.



# Regulatory Framework E&G - Purpose and Organisation



## Purpose

### Organise the energy market in order to

- Increase generation capacity through import and new generation units
- Improve competition in generation
- Provide for neutral, technically integrated and cost-efficient networks for E&G transmission and distribution
- Benchmark cost of energy
- Reduce costs
- Permanently monitor the market and, if needed, adjust regulations to improve its organisation
- Have a well-functioning retail market

### Take action with a view to the climate objectives

- Harmonise energy and environmental policies
- Promote efficient use of energy
- Promote use of renewables and use of CHP (Combined Heat & Power) units

## Areas of Competence

For the Belgian energy market, 1 federal (CREG) and 3 regional regulators (Flanders: **VREG**) have been set up

### CREG's areas of competence:

- Electricity generation (except renewables and CHP systems)
- Electricity transmission on grids >70 kV
- Gas storage and transport
- Transmission tariffs

### The 3 regional regulators' areas of competence:

- Local distribution of electricity (voltage  $\leq 70$  kV)
- Local distribution of natural gas
- Electricity generation from renewables and CHP
- Rational use of energy (RUE)
- (Social) public service obligations
- Organisation of supply market and supply licenses
- Distribution tariffs

# Regulatory Framework E&G

*DSOs implement the Flemish government's public service & social welfare policies.*



## Public Service Obligations (PSO)

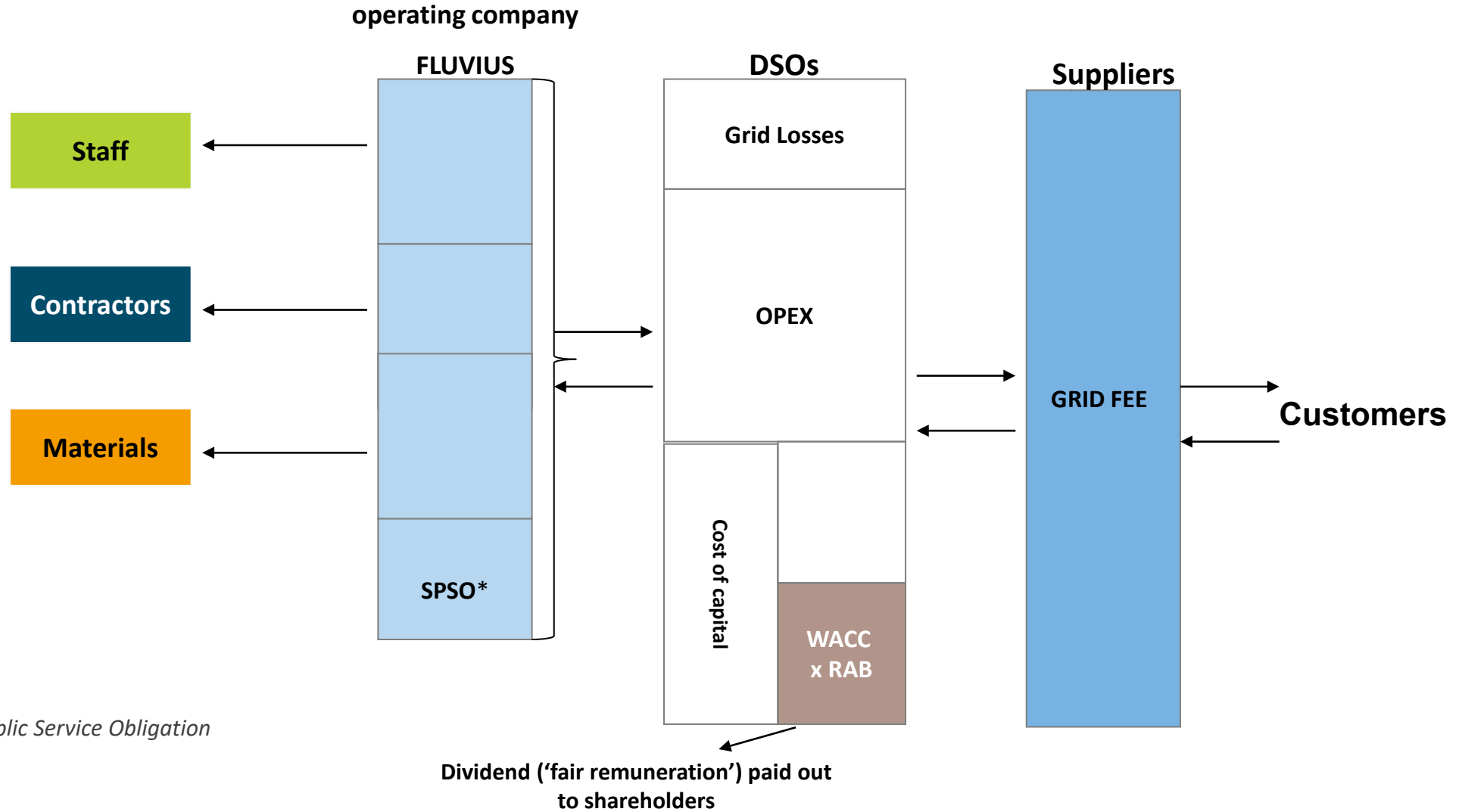
Public Service Obligations are a number of diverse obligations imposed on the E&G DSOs. There are **3 types of PSOs**:

<b>1. Technical</b>	<ul style="list-style-type: none"><li>• DSO is required to connect each end user to the E&amp;G distribution grids at a maximum cost of EUR 250</li></ul>
<b>2. Social</b>	<ul style="list-style-type: none"><li>• DSO is the social supplier for customers dropped by commercial suppliers</li><li>• cut-offs from grid only allowed under strict conditions = protection of socially vulnerable customers</li><li>• DSO is supplier-of-last-resort when commercial supplier fails</li></ul>
<b>3. Environmental</b>	<ul style="list-style-type: none"><li>• support mechanism for E generation from renewables through certificate system: DSO is obliged to buy Green Power Certificates (GPC) and Combined Heat/Power Certificates (CHPC) at set price, to be sold to the market</li><li>• DSO pays out subsidies for energy-saving measures (Rational Use of Energy)</li><li>• DSO installs charging infrastructure for electric vehicles</li></ul>

→ the total PSO cost is part of the distribution grid fee billed by the DSOs



# Cash Cycle E&G distribution



\* SPSO = Social Public Service Obligation

# Financial Overview

## Outstanding bonds at Fluvius (as per 31 Dec 2021)



Type	E = Eandis I = Infrac F = Fluvius	Amount (€)	Settlement date	Maturity date	Maturity (years)	Coupon
EMTN benchmark	E	500	30/11/2012	30/11/2022	10	2,750%
EMTN benchmark	E	500	9/10/2013	9/10/2023	10	2,875%
EMTN sub-benchmark	I	250	30/10/2013	30/10/2023	10	3,750%
Retail	E	200	23/06/2017	23/06/2025	8	2,000%
EMTN sub-benchmark	E	400	4/12/2014	4/12/2026	12	1,750%
Schuldschein	E	50	21/09/2012	21/09/2027	15	3,500%
EMTN Private Placement	E	54,5	28/03/2013	28/03/2028	15	3,500%
EMTN benchmark	F	500	14/06/2021	14/06/2028	7	0,250%
EMTN benchmark	E	550	7/05/2014	7/05/2029	15	2,875%
EMTN sub-benchmark	I	250	29/10/2014	29/10/2029	15	2,625%
EMTN benchmark GREEN	F	600	2/12/2020	2/12/2030	10	0,250%
EMTN benchmark	F	600	24/11/2021	24/11/2031	10	0,625%
EMTN Private Placement	E	135,5	10/07/2012	10/07/2032	20	3,950%
EMTN Private Placement	E	20,5	28/03/2013	28/03/2033	20	3,750%
EMTN Private Placement	F	100	8/04/2021	8/04/2033	12	0,810%
Private Placement	E	95	27/10/2014	27/10/2034	20	2,600%
Private Placement	E	23	5/03/2014	5/03/2036	22	3,550%
Namensschuldverschreibung	E	50	24/06/2013	24/06/2043	30	3,500%
Private Placement	E	52	5/03/2014	5/03/2044	30	3,550%
Private Placement	E	170	27/10/2014	27/10/2044	30	3,000%

[ in order of maturity date ]

# Fluvius System Operator's subsidiary



## De Stroomlijn cv

- Activity: call centre for distribution network related issues
- Shareholders: Fluvius System Operator (62,17%), multi-service company Farys (32,03%), Synductis (2,90%), De Watergroep (2,90%)
- Board: 9 members (of which 4 for Fluvius, incl. Chairman David Termont)
- Staff: 361 on 4 sites (Mechelen, Ghent, Ypres and Hasselt) – managing director: Luc Van Ammel
- Established: 28 December 2006
  
- Operates at cost price (no margin/profit) for its shareholders
- Consolidated according to the integral method
- Financials 2021 (BE-GAAP)
  - Balance sheet total: EUR 2.735.230
  - Contribution: EUR 265.400
  - Debt: EUR 2.469.830, all of it ST debt
  - Turnover: EUR 19.943.246

# Fluvius System Operator's subsidiary:



## Atrias cv

- Shareholders: all Belgian distribution grid operators; Fluvius System Operator owns 50% of share capital
- Board: 12 members (of which 6 for Fluvius, incl. Chairman Frank Vanbrabant)
- Staff: 24 (31 December 2020) – CEO: Frank De Saer
- Established: 9 May 2011
  
- Operates on a federal scale (the whole of Belgium) to obtain maximum economies of scale
- Atrias has developed MIG-6 (Message Implementation Guide, smart-ready) and a central market system (launched November 2021)
- Works at cost price (no margin/profit) for its shareholders
- Consolidated in Fluvius according to the equity method
- Financials 2020 (BE-GAAP)
  - Balance sheet total: EUR 83.352.548
  - Contribution: EUR 18.600 (formerly share capital)
  - Debt: EUR 83.333.948 (of which EUR 69.357.840 LT debt and EUR 13.960.869 ST debt)
  - Turnover: EUR 35.643.768

# Fluvius System Operator's subsidiary:



## Synductis cv

- Date of establishment: 21 December 2012
- Shareholders: Fluvius System Operator (34,47%), De Watergroep, Farys, IWVA/Aquaduin, Proximus, Pidpa and Aquafin – collaboration agreements with the Flemish public transport company De Lijn and the Flemish Agency for Roads & Traffic - open for other utilities to join
- Board: 6 members (of which 2 for Fluvius) – chairman: Christoph Peeters (on behalf of Fluvius)
- Staff: none, all operations run by staff delegated by shareholders
- Synductis detects synergies between utilities carrying out infrastructure works in the public domain (energy, water, telecom, sewerage a.o.), thus reducing hindrance for the general public and realising cost efficiencies for the utilities
- Works at cost price (no margin/profit) for its shareholders
- Consolidated according to the equity method
- Financials 2021 (BE-GAAP)
  - Balance sheet total: EUR 1.618.604
  - Contribution: EUR 21.700
  - Debt: EUR 1.596.904 (only ST debt / no LT debt)
  - Turnover: EUR 1.908.752

# Intermunicipalities and DSOs



## Intermunicipalities - Overview

- Belgian local municipalities are in charge of several public services (waste management, water management, environment, energy distribution, ...)
- The municipalities may organise these tasks in 2 ways
  - either through a “municipal company” in which each municipality organises the service with its own staff and financial resources
  - or through an association of several municipalities, (also called “intermunicipality”) in which several municipalities are associated to provide a common service
- Legal status of companies of public law
- Flemish intermunicipalities are governed by the Flemish Decree on Local Authorities (22 Dec 2017)
- Intermunicipal licenses are valid for 18 years without exit possibilities

## DSOs - Overview

- Most municipalities opted for intermunicipal associations as their electricity and gas distribution system operator (“DSO”)
- Intermunicipal DSOs, being public law companies, do not have a commercial character, thus Belgian bankruptcy law does not apply
- In view of their mission on behalf of their public shareholders, intermunicipal DSOs perform a public service observing the principles of equality, continuity, regularity of service in relation to suppliers and customers, rather than by pure economic profit
- Each intermunicipal DSO holds a legal monopoly for the area covered by its network
- Each intermunicipal DSO owns its proper grid infrastructure
- Each intermunicipal DSO is appointed by the energy regulator for a renewable term of 12 years: ownership of network (or rights of use) is prerequisite for obtaining such a licence – current DSO licences for E are valid until 5 September 2026, for gas until 14 October 2027



# Abbreviations



- **BIPT** = Belgisch Instituut voor Postdiensten en Telecommunicatie (= Belgian telecom regulator)
- **CATV** = Cable Television
- **CHP** = Combined Heat & Power (WKK, warmtekrachtkoppeling)
- **CHPC** = Combined Heat & Power Certificate (warmtekrachtcertificaat)
- **CREG** = Commissie voor de Regulering van de Elektriciteit en het Gas (= Belgian federal energy regulator)
- **CV** = cooperative company (coöperatieve vennootschap)
- **DSO** = Distribution System Operator (distributienetbeheerder, DNB)
- **EBITDA** = Earnings Before Interest, Taxes, Depreciation and Amortization
- **GPC** = Green Power Certificate (GSC, groenestroomcertificaat)
- **RAB** = Regulated Asset Base (= economic value of network for transmission & distribution of electricity and gas)
- **RUE** = Rational Use of Energy (Rationeel Energiegebruik)
- **RUW** = Rational Use of Water (Rationeel Watergebruik)
- **TSO** = Transmission System Operator (transmissienetbeheerder, TNB)
- **VMM** = Vlaamse Milieumaatschappij (= Flemish Environmental Agency)
- **VREG** = Vlaamse Regulator van de Elektriciteits- en Gasmarkt (= Flemish regional energy regulator)
- **WACC** = Weighted Average Cost of Capital (gewogen gemiddelde kapitaalkost)

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\* being: Fluvius Antwerpen, Fluvius Limburg, Fluvius West, Gaselwest, Imewo, Intergem, Iveka, Iverlek, PBE, Riobra, Sibelgas