MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A1 rating to Eandis; negative outlook (Belgium)

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First-time rating

London, 12 October 2011 -- Moody's Investors Service has today assigned a backed A1 long-term issuer rating to Eandis CVBA (Eandis), a Belgian utility company that is fully owned by seven mixed Flemish Distribution System Operators (DSOs). The DSOs' share capital is 79% held by municipalities and provinces predominantly in the Flemish Region and 21% by Electrabel SA. The rating has a negative outlook, which is driven by Moody's current review of the ratings of the Flemish Region and other sub-sovereign entities. This is the first time that Moody's has assigned a rating to Eandis.

RATINGS RATIONALE

"The A1 issuer rating assigned to Eandis is driven by Moody's assessment of the credit quality of the seven DSOs that own the company and which the rating agency considers to be of comparable credit strength," says Johan Verhaeghe, a Moody's Vice President -- Senior Credit Officer and lead analyst for Eandis. Through the Flemish Energy Decree of 8 May 2009, and with the explicit permission of the regional regulator VREG, Eandis is appointed as the unique operator of the DSOs' networks. In addition, through the DSOs' articles of association, Eandis operates at cost basis, whereby all costs incurred by the company, including financing costs, are passed through to the DSOs. Therefore, Moody's understands that all financial creditors and contractual counterparties have indirect recourse to the DSOs. Eandis's DSO owners are Gaselwest CVBA, IMEA, Imewo, Intergem, Iveka, Iverlek and Sibelgas CVBA.

"The rating reflects the low business risk profile of regulated electricity and gas distribution operations in the Flemish electricity and gas market, which are carried out under a transparent and supportive, albeit relatively new and untested, regulatory framework," adds Mr Verhaeghe. The rating also reflects the DSOs' capital structures, which currently exhibit a ratio of net debt/fixed assets in the low fifties in percentage terms. However, Moody's expects this ratio to increase to 60-70% as a result of the DSOs' investment programmes and the additional debt to be raised by the companies to buy back Electrabel's shares, as the latter is required by law to exit the ownership of the DSOs by 2018. Furthermore, the rating incorporates a three-notch rating uplift, reflecting the potential support from the Flemish Region (Aaa, on review for downgrade).

Although Belgium's incentive-based regulatory framework is relatively young and untested, it allows for comprehensive cost recovery and it significantly eliminates exposure to volume risk. The framework therefore provides a stabilising factor in terms of the financial performance of the DSOs. As of 30 June 2011, Electrabel reduced its shareholdings in the DSOs by a total of EUR404 million, thereby lowering the DSOs' average equity/assets ratio to 47.8% from 50%. As a result of Electrabel's reduced shareholding, Moody's expects the DSOs' combined leverage to move into line with the regulator's guidance of 33%/67% equity/debt.

The A1 rating factors in Moody's expectation that (i) the DSOs' medium-term financial profiles will reflect a gradual increase in leverage and their ability to achieve, on a sustainable basis, the following consolidated credit metrics: net debt/fixed assets between 60% and 70%; and funds from operations (FFO)/net debt between 13% and 15%.

For the first half of 2011, the Eandis economic group (consolidating the DSOs) reported EUR471 million of operating cash flow and EUR3.9 billion of gross debt. Principal cash calls anticipated during the period

Q4 2011-Q3 2012 include dividend payments of around EUR250 million (90% of net income), approximately EUR360 million in debt repayments and extensive capital expenditure (capex), estimated in the region of EUR700 million. Moody's cautions that Eandis has historically relied on the successful placement of its Commercial Paper (CP) programme, which is partially backed by bank facilities, to support its liquidity needs. However, Moody's understands that the company is planning to enhance its liquidity position in the near term. A failure to do so could lead to negative pressure on the rating.

In assessing the financial profile of Eandis, Moody's has applied its rating methodology for government-related issuers (GRIs), given the ownership of the seven DSOs by the Belgian municipalities and provinces. The DSOs' ownership is relatively fragmented among approximately 234 local communities. Given that most municipalities are relatively small, on an individual basis they may not have the financial strength to support a DSO should it get into financial difficulties. However, Moody's expects that, if the DSOs were to require timely financial support, the Flemish Region would act for the following reasons: (i) given that the Flemish Region is responsible for the organisation of the electricity and gas market and for the distribution of energy, which is considered a public service, the Region would be indirectly affected by any difficulties (including financial problems) experienced by the entities entrusted with this task; and (ii) the Flemish Region has a track record of providing support and in recent years was significantly involved in helping its financial institutions.

Accordingly, in assessing the DSOs' credit quality, Moody's has incorporated a three-notch rating uplift. This is to reflect potential support from the Flemish Region to the standalone credit strength of the DSOs. The rating agency views the credit strength of the DSOs as commensurate with the high Baa rating range.

The negative outlook on Eandis's A1 rating is driven by Moody's review of the Aaa rating of the Flemish Region.

WHAT COULD CHANGE THE RATING UP/DOWN

Given the current negative outlook, Moody's does not expect any upward rating pressure in the near term.

However, the rating could come under downward pressure if the DSOs' (i) cash flow generation were to weaken as a result of operational underperformance or an unfavourable development in the regulatory framework; (ii) consolidated net debt/fixed assets ratio were to increase to more than 70%; and/or (iii) consolidated FFO/net debt ratio were to fall below 12% on a permanent basis. In addition, negative pressure on Eandis's rating could develop if Moody's were to revise downwards its assessment of the probability of support from the Flemish Region or if the rating of the Flemish Region were subject to a material downward adjustment.

PRINCIPAL METHODOLOGIES

The principal methodologies used in rating Eandis were the Regulated Electric and Gas Networks rating methodology, published August 2009, and Government Related Issuers: Methodology Update, published July 2010.

Eandis is a Belgian utility company that was established in March 2006 through the merger of GeDis, ENV and Indexis (Flanders). The company is owned by seven mixed Flemish DSOs. In turn, 79% of these DSOs are held by municipalities and provinces and 21% by Electrabel.

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