Rating Action: Moody's changes outlook on Eandis's A1 rating to stable from negative; ratings affirmed

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London, 13 March 2014 -- Moody's Investors Service has today changed the outlook on Eandis CVBA's A1 long-term issuer and senior unsecured ratings to stable from negative. At the same time, those ratings and the (P)A1 MTN programme rating were affirmed. This action follows the affirmation of the Aa2 long-term rating on the Community of Flanders on 12 March 2014, and the stabilisation of the outlook on that rating

RATINGS RATIONALE

"Eandis's stabilised outlook reflects the stabilisation of the outlook on the Community of Flanders' rating, the entity with ultimate responsibility for the organisation of energy distribution in the region," says Nicholas Stevens, Moody's lead analyst for Eandis. "Eandis benefits from three notches of ratings uplift as a result of its association with the Community of Flanders, and our assessment of the company's credit quality is therefore highly connected to that of the Belgian sub-sovereign at this level," adds Mr. Stevens.

Eandis is fully owned by seven Flemish Distribution System Operators (DSOs). In assessing Eandis's financial profile, 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. In accordance with this GRI methodology, Moody's assessment of the credit quality of the DSOs incorporates a three-notch rating uplift. The uplift results from (1) the credit quality of the Community of Flanders (Aa2 stable); (2) Moody's assessment that there is a high probability that the sub-sovereign would provide support to the DSOs if they were in financial distress; and (3) Moody's assessment of a very high level of default dependence (i.e., the degree of exposure to common drivers of credit quality) given the entirely domestic operations of the DSOs and their close association with their owners and the region.

WHAT COULD CHANGE THE RATING UP/DOWN

The stable outlook for Eandis reflects Moody's expectations that the company will continue delivering on its current, stable, trajectory of operational and investing cash flows and that the ownership structure will remain materially unchanged in the coming years.

Eandis's rating is one of the most highly positioned amongst the peer European networks and incorporates three-notches of uplift for possible extraordinary support from its shareholders. For any upward pressure on the rating to occur Moody's would require a longer track record of regulatory stability and sustained financial performance above current expectations.

Moody's could downgrade Eandis's rating if the DSOs' (1) cash flow generation were to weaken as a result of operational underperformance or unfavourable development in the regulatory framework; (2) consolidated net debt/fixed assets ratios were to increase to more than 70%; (3) consolidated FFO/net debt ratio were to fall below 12% on a permanent basis. In addition, Moody's could adjust Eandis's rating downwards if the rating agency were to assess a lower probability of support from the Community of Flanders or if the rating of the sub-sovereign was downgraded.

The methodologies used in this rating were Regulated Electric and Gas Networks published in August 2009, and the Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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