MOODY'S
INVESTORS SERVICE

Credit Opinion: Eandis CVBA

Global Credit Research - 20 Dec 2013

Belgium

Ratings

Category	Moody's Rating
Outlook	Negative
Issuer Rating -Dom Curr	A1
Bkd Senior Unsecured -Dom Curr	A1

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Key Indicators

[1]**Eandis CVBA**

	12/31/2012	12/31/2011	12/31/2010	12/31/2009
(FFO + Interest) / Interest Expense	**4.2x**	**5.2x**	**5.4x**	**6.0x**
Net Debt / Fixed Assets	**66.9%**	**62.7%**	**56.0%**	**53.8%**
FFO / Net Debt	**12.9%**	**15.0%**	**16.2%**	**16.8%**
RCF / CAPEX	**0.7x**	**0.7x**	**0.7x**	**0.8x**

[1] All ratios are calculated using Moody's Standard Adjustments. Source: Moody's Financial Metrics TM

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Transparent and supportive regulatory framework, although yet to establish a track record

Three notches of rating uplift reflecting potential support from the Flemish Region in a distress scenario

Expected weakening financial profile, as a result of ongoing capital expenditure needs and tariff deficit

Corporate Profile

Eandis CVBA (Eandis) is a Belgian utility, established in March 2006 through the merger of GeDis, ENV and Indexis (Flanders) and is fully owned by seven mixed Flemish Distribution System Operators (DSOs). Eandis's DSO owners are Gaselwest CVBA, IMEA, Imewo, Intergem, Iveka, Iverlek and Sibelgas CVBA. The DSOs' share capital is 79% held by municipalities and provinces and 21% by Electrabel SA (A3 negative).

Eandis operates, maintains and develops the regulated electricity and gas distribution networks on behalf of the seven DSOs in the Flanders region of Belgium. In addition, Eandis is responsible for the metering activity and the

operation of social public service obligations. Through the Flemish Energy Decree of 8 May 2009, and with the explicit permission of the VREG, the Flemish region's electricity and gas distribution regulator, Eandis is appointed as the sole 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, we understand that all financial creditors and contractual counterparties have indirect recourse to the DSOs proportional to their respective share of obligations. All distribution assets are held by the DSOs and there are no meaningful assets at Eandis's level.

Rating Rationale

Eandis's backed A1 long-term issuer rating is driven by our assessment of the credit quality of the seven DSOs that own the company and which we consider to be of similar credit strength.

The DSOs' credit quality is underpinned by the low business risk profile of their regulated electricity and gas distribution operations in the Flemish market where the DSOs generate materially all their cash flows. The regulatory framework is supportive and transparent albeit relatively new and untested in the context of peer European regulated assets. We view the Baseline Credit Assessment of the DSOs as commensurate with a high Baa rating range and the assigned rating for Eandis incorporates a three-notch rating uplift, reflecting the potential support from the Flemish Region (Aa2 negative).

The A1 rating factors in our expectation that 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%-70%; and funds from operations (FFO)/net debt between 13%-15%.

Detailed Rating Considerations

TRANSPARENT AND SUPPORTIVE REGULATORY FRAMEWORK, ALTHOUGH YET TO ESTABLISH A TRACK RECORD

The regulatory framework provides Eandis with good revenue visibility, including protection from volume risk, and simply requires the DSOs manage their cost base efficiently. It is a typical `building blocks' model where the DSO will earn a return on the regulatory asset base (RAB) and an allowance for operating costs. The four year price-control period provides some medium-term stability and the in-period adjustments between allowed and actual costs are recognised as regulatory assets (or liabilities).

Although the regulatory regime is based on established precedents of incentive-based regulation in European countries, Eandis's regulatory framework requires some time to evidence the long-term stability seen elsewhere. That, in addition to some specific unresolved issues discussed below, constrain our assessment of the regulatory environment to A as compared to, for example, Aa in the Republic of Ireland and Aaa in Great Britain.

TARIFF INCREASE TO COMPENSATE FOR OBLIGATION TO BUY GREEN POWER CERTIFICATES

The DSOs have been burdened by an under-recovery of green power certificate (GPCs) related costs in the first half of the 2009-12 regulatory period. They have an obligation to continue buying GPCs for existing renewable installations while these installations are `certificate recognised' which is typically for 20 years. The DSOs have now built up a consolidated regulatory asset of approximately EUR 350 million by December 2013. The annual cost of buying GPCs is about EUR300 million and we expect that this will remain stable given that, as of 2013, the energy suppliers are now obliged to buy GPCs for new installations (and no longer just the DSOs).

In principle, a regulatory asset can only be recovered from the start of the next regulatory period. However, the regulator has allowed the DSOs, since 1 April 2011, to adjust their tariffs sooner to stabilise the regulatory assets (costs incurred but not yet recuperated) and to avoid a sudden and large impact on tariffs at the start of the next regulatory period. Thanks to the 2011 tariff adjustment, regulatory assets have not materially increased in 2013 and we expect them to remain stable until the beginning of the next regulatory period. We view the tariff increase as positive, although we note that DSOs will continue to incur an extra financing cost, of having to carry this regulatory asset on their balance sheets until the next regulatory period.

TRANSITION TO ONE REGULATORY BODY WILL REDUCE RISK OF INCONSISTENCIES

Historically, the federal state and each of the Belgian regions have set up their own regulatory body for the electricity and gas market with complementary competencies, the CREG being principally responsible for tariff setting in respect of the DSOs and the VREG for licensing issues. As part of a decentralisation of powers from the federal to the regional Governments, by 2016 the responsibility for setting electricity and gas distribution tariffs will

pass from the CREG to the regional regulators, which is the VREG in the Flemish Region. After this transfer, the VREG will become the regulator for Eandis's DSOs for all regulatory aspects, including tariff setting, and the CREG will no longer be involved. Therefore there will no longer be a risk of inconsistencies between measures taken by the VREG or CREG.

In April 2012, CREG decided to extend the 2009-12 tariff until 2014 in order to guarantee tariff stability during the transitioning period. We expect this tariff freeze to be extended until 2015 and the new regulatory period to start in 2016.

THREE NOTCHES OF RATING UPLIFT REFLECTING POTENTIAL SUPPORT FROM THE FLEMISH REGION

The DSOs' ownership is fairly fragmented among 234 local communities. Most municipalities are small and may not have the financial strength to support a DSO should it get into financial difficulties. However, we expect that if the DSOs were to require this, the Flemish region would act given that (1) it is ultimately responsible for the organisation of the electricity and gas market and for the distribution of energy, which is considered a public service, (2) it would be indirectly affected by any difficulties (including financial problems) experienced by the entities entrusted with this task, and (3) it has a track record of providing support and in recent years was significantly involved in helping its financial institutions.

In assessing the financial profile of Eandis, we have applied our 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, our assessment of the credit quality of the DSOs incorporates a three-notch rating uplift. The uplift results from (1) the credit quality of the Flemish region (Aa2 negative); (2) our assessment that there is a high probability that the Flemish region would provide support to the DSOs if they were in financial distress; and (3) our 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.

Liquidity Profile

Eandis's liquidity position is currently adequate. EUR245 million of debt (around 6% of the total) is due in 2014, capital expenditure of approximately EUR668 million is planned, and the projected dividend payment is around EUR227 million. The group's primary sources of committed liquidity are a EUR200 million loan, EUR150 million revolving credit facility and a EUR100 million facility rolling annually.

Eandis plans to meet its 2014 liquidity needs mainly by accessing the bank market, private placement market or capital markets for a total amount of EUR800 million, and through its cash flow from operating activities (which after interest and tax paid is expected to be around EUR700 million in 2014). The group placed a EUR500 million note under its EMTN programme in October 2013 and regularly accesses the debt capital markets. Moody's expects that Eandis will progress its debt raising programme through 2014 in order to maintain liquidity coverage from available and committed sources.

Rating Outlook

The negative outlook on Eandis's A1 rating is driven by our negative outlook of the Aa2 rating of the Flemish region.

What Could Change the Rating - Up

Given the current negative outlook, we do not expect any upward rating pressure in the near term.

What Could Change the Rating - Down

We could downgrade the 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, we could adjust Eandis's rating downwards if we were to assess a lower probability of support from the Flemish region or if the rating of the Flemish region were subject to further downward adjustment.

Other considerations

The company's rating falls within the scope of Moody's methodology for Regulated Electric and Gas Networks, published in August 2009 and of Moody's methodology for Government Related Issuers published in July 2010.

Please see the Credit Policy page on www.moodys.com for a copy of the methodology. Details of our analysis of the company in respect of the key factors under the methodology are provided below.

The assigned Baseline Credit Assesment in the high Baa range, below the A range Regulated Electric and Gas Networks methodology output. The assigned rating is in line with the indicated rating from the Government Related Issuers methodology grid.

Rating Factors

Eandis CVBA

Regulated Electric and Gas Networks [1][2]	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**
Factor 1: Regulatory Environment & Asset Ownership Model (40%)						
a) Stability and Predictability of Regulatory Regime			X			
b) Asset Ownership Model		X				
c) Cost and Investment Recovery			X			
d) Revenue Risk			X			
Factor 2: Efficiency & Execution Risk (10%)						
a) Cost Efficiency				X		
b) Scale and Complexity of Capital Programme				X		
Factor 3: Stability of Business Model & Financial Structure (10%)						
a) Ability and Willingness to Pursue Opportunistic Corporate Activity			X			
b) Ability and Willingness to Increase Leverage				X		
c) Targeted Proportion of Operating Profit Outside Core Regulated Activities		X				
Factor 4: Key Credit Metrics (40%)						
a) (FFO + Interest) / Interest Expense (3-Year Average)			5.0x			
b) Net Debt / Fixed Assets (3 Year Avg)				61.8%		
c) FFO / Net Debt (3 Year Avg)			14.7%			
d) RCF / CAPEX (3 Year Avg)					0.7x	
Rating:						
a) Indicated Credit Strength from Grid			A range			
b) Actual Credit Strength Assigned			High Baa			

Government-Related Issuer	**Factor**
a) Actual Credit Strength Assigned	High Baa
b) Supporter Rating	Aa2
c) Default Dependence	Very High
d) Support	High

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2012. Source: Moody's Financial Metrics

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