MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Eandis's A1 ratings, negative outlook

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London, 02 December 2014 -- Moody's Investors Service (Moody's) has today affirmed the A1 issuer and senior unsecured debt ratings of Eandis CVBA (Eandis). The (P)A1 senior unsecured programme rating of the company's EUR5.0 billion MTN programme has also been affirmed. Concurrently, Moody's changed the outlook on the ratings to negative from stable. The outlook change follows Eandis's announcement on 25 November 2014 that the exit of Electrabel SA (A3 stable) as a shareholder in the seven distribution system operators (DSOs) would result in Eandis raising additional debt of EUR400 million as the final portion of a total EUR965 million debt amount raised to pay out Electrabel.

RATINGS RATIONALE

Eandis's A1 rating reflects Moody's assessment of the credit quality of the seven DSOs that own the company and which the rating agency considers to be of broadly similar credit strength. The A1 rating also reflects a high probability that the Community of Flanders (Aa2 stable) will ultimately support the DSOs if necessary, given the strategic and economic importance of their services for the region. This currently results in a three-notch uplift from the BCA, which is in the high-Baa range.

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 of their cash flows. The regulatory framework is supportive and transparent albeit relatively new and untested in the context of peer European regulated assets. The ongoing transition of tariff setting responsibilities from the national to the regional regulators continues to create some uncertainty on cash flow generation capability in the medium term, but the proposed tariff setting methodology maintains established principles.

However, the stand-alone credit quality, or Baseline Credit Assessment (BCA), of the DSOs, and consequently the final rating, is pressured by weak financial performance due to ongoing investment requirements and under-recovery of certain non-controllable costs in the current regulatory period. Whilst some of these costs will be recovered during 2015-16, the remuneration for non-controllable costs incurred between 2012-14 remains outstanding. The additional debt incurred due to the exit of Electrabel as shareholder in the DSOs by December 2014 will further weaken credit metrics over the medium term, particularly given that the size and timing of additional equity contributions from the municipalities to support the underlying credit quality remains uncertain.

On 27 August 2014, Eandis announced that Electrabel, owner of a 21% stake in the seven DSOs, and the DSOs reached agreement in principle on Electrabel's exit as a shareholder by the end of 2014. The transaction will be realised through a sale of shares, which is expected to close on 29 December 2014. To pay for Electrabel's 21% stake (valued at EUR910 million), Eandis is raising approximately EUR965 million of additional debt by the end of this year. Moody's expects the additional debt burden to increase the Eandis economic group's leverage (measured by net debt to regulated asset base) to slightly beyond 70%, and reduce the ratio of Funds from Operations (FFO) to net debt to around 10-11%, below the guidance for the current rating.

To mitigate the financial impact, the shareholding municipalities will be offered the opportunity to increase their share capital in the DSOs to align with the regulatory guidance on gearing of 67% debt to 33% equity. The municipalities will take a decision by mid-December 2014 on whether to contribute additional equity (to be injected in January 2015), but there is no legal obligation for them to do so. Moody's believes it unlikely the full amount will be injected in January 2015, but notes that, even if the municipalities do not increase their equity share in the DSOs at this point in time, the offer remains open to do so at a later stage.

RATING OUTLOOK

The negative outlook reflects the weakening credit quality of the Eandis economic group, represented by the seven DSOs owning Eandis, as a result of the debt raised to fund the exit of Electrabel and the risk that this may not be sufficiently offset by equity injections or other balance sheet strengthening. It further takes into account an element of regulatory uncertainty as the new tariff methodology continues to evolve.

WHAT COULD CHANGE THE RATING -- UP/DOWN

Given the current negative outlook, any upward pressure on the rating is unlikely over the medium term. Moody's would consider stabilising the outlook, if it becomes clear that the municipalities will provide additional equity capital on a timely basis to support a gearing profile at the DSOs in line with regulatory parameters or around 67% debt to 33% equity. Leverage (measured as net debt to regulated asset base) comfortably below 70% and FFO/net debt in the low teens would support a stable outlook. In addition, clarity around the development of the new tariff setting approach, and, in particular, the recovery of previously under-recovered non-controllable costs incurred, would support stabilising the rating outlook.

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

PRINCIPAL METHODOLOGY

The methodologies used in this rating were Regulated Electric and Gas Networks published in November 2014, and the Government-Related Issuers published in October 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Eandis CVBA (Eandis) is a Belgian utility, 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. 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 some other public service obligations.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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