

Rating rationale

Rating as of 30 April 2015	
Issuer rating:	A-
Outlook:	Stable
Rating subject:	
<p>Elia System Operator S.A./N.V. (Elia), 45.08% owned by the intermunicipal holding company Publi-T SCRL, owns and operates electricity transmission grids in Belgium and Germany. In 2014, with a workforce of over 1,900 the Elia Group generated revenue of € 1.4 billion* in the transmission system operator business. The issuer rating is in connection with the planned Fixed Rate Secured Notes issue by Solar Chest S.A. (volume € 300 million), intend to finance the acquisition by Solar Chest (reservation) of green certificates initially acquired by Elia which cannot be apportioned through tariffs.</p>	
Strengths:	
<ul style="list-style-type: none"> ■ Federal/ regional concessions for transmission grid operation ■ Regional monopoly positions ■ Reliable and resilient networks ■ Secured cash flows ■ Good capital market access 	
Weaknesses:	
<ul style="list-style-type: none"> ■ Scope for improvement in project management and group synergies ■ Group-wide risk management system under development ■ CEO succession still remains unresolved 	
Opportunities:	
<ul style="list-style-type: none"> ■ Growth through planned grid extension and integration of renewable energies ■ Extension of service expertise for third parties 	
Threats:	
<ul style="list-style-type: none"> ■ Changes in energy policy and regulatory framework ■ Grid instabilities, blackouts ■ Investment needs for large-scale projects ■ Loss of concession ■ Dividend policy 	

Euler Hermes Rating assigns an A- issuer credit rating to Elia System Operator S.A./N.V.. We expect the rating to remain stable over the next twelve months.

In our view the Elia Group has a **low business risk** because of ownership and concession of the transmission grid operator and regional monopolies in Belgium and Germany. The planned long-term investments in transmission grid extension, grid capacities, grid modernisation and integration of renewables, as well as in partner-oriented connection of offshore platforms with a view to securing grid stability and energy-efficiency, has been assessed as positive. We perceive growth opportunities via synergies with leading transmission system operators (TSOs), suppliers and intragroup companies. Further development of the group could be driven by acquisitions and offering consulting and engineering expertise to the energy market. Efforts are to be made to find a successor for the acting CEO. We perceive risks in further EU liberalisation and uncertainties regarding tariff policy.

We consider the Elia Group's **financial risk to be moderate**. Taking into consideration the recovery of regulatory costs, secured cash flows and returns on equity, we perceive the earning potential and the financing structure to be appropriate. We believe that the funding of the large investment programme will potentially and systematically impact future degearing. The financing needs for the green certificates granted to beneficiaries initially acquired by Elia and subject to a transfer (reservation) to Solar Chest S.A. are to be covered by a Fixed Rate Secured Notes issue at Solar Chest level in 2015. Preferred access to the principal shareholder, the intermunicipal holding company, good capital market access, the high liquidity reserve and free financing lines provide in our assessment very good financial flexibility. In our view, there could be a potential risk in shareholders' dividend expectations.

Due to favourable framework conditions for Elia on monopolies and the relevant tariff policy rules, there is in our opinion a high level of interest on a sustainable basis at federal and regional level in Belgium and in Germany in securing the role of transmission grid operator (Elia) as a crucial partner in the security of supply of electricity. We assume that the major shareholder, the intermunicipal holding company, will be supportive of Elia via liquidity-enhancing measures if necessary during the concession period until the year 2022. Furthermore, in our assessment the rating incorporates a one-notch rating uplift, reflecting potential support from the **external governmental impact** resulting in an A- rating for Elia.

Financial ratios for the Elia Group*	2012	2013	2014
EBITDA margin	33.2	35.7	37.7
Return on capital employed (ROCE)	5.5	6.8	8.3
Equity ratio	30.5	30.3	28.8
Debt-to-equity ratio	62.5	59.7	56.7
Total liabilities / EBITDA	9.9	9.1	9.3
Net financial liabilities / EBITDA	7.2	5.8	4.9
EBIT interest coverage	1.9	2.4	3.0
EBITDA interest coverage	3.0	3.7	4.2

* Pro-forma consolidation, adjusted in accordance with the analysis principles of the EHRG

Execution of the rating

The request for the Corporate rating of Elia System Operator S.A./N.V. was submitted on 25 March 2015 by Solar Chest S.A. (client) with the approval of Ecetia Intercommunale SCRL (public law entity) in connection with the planned placement of a Fixed Rate Secured Note issue by Solar Chest S.A. The company visit to Elia System Operator S.A./N.V. and the management talk with Ecetia Intercommunale SCRL (public law entity) and Solar Chest S.A. took place on 2 March 2015. This rating report was presented to Elia System Operator S.A./N.V. on 30 April 2015, meaning that the rating process has now been concluded. On 30 April 2015 the notation proposal was approved in its present version. If this rating is not made public, the rating refers to this date. If the rating assessment is published on the rating agency's website (www.eulerhermes-rating.com), it will be followed by a subsequent one-year monitoring process. During this period, the company and the environment in which it operates remain under observation. The rated company (Elia System Operator S.A./N.V.) is subject to unrestricted disclosure obligations during this period in accordance with the monitoring agreement to be concluded between the parties. Any change in the rating agency's assessment will result in a change in the published rating, meaning that the rating as shown on the internet represents the current rating assessment at all times. Continued publication after the expiry of the monitoring period is contingent upon a follow-up rating being conducted.

Elia System Operator S.A./N.V. does not take responsibility nor does it guarantee that the rating report and all of the information which it contains is correct and complete in all significant respects, that no major aspects have been concealed and that any forward-looking statements which it may include are based on plausible, verifiable and current data and have been prepared with the diligence of a prudent businessman, even though they have made the best efforts to provide Euler Hermes Rating GmbH with its comments and suggestions for modification if necessary. Elia System Operator S.A./N.V. cannot be held liable if actual results differ from the forward-looking statements, in particular the projections, presented in this document. Changes in the economic environment and unforeseen events may impair the validity of the forward-looking statements and projections.

The rating report may not be construed as constituting a recommendation to participate in certain facilities. All recipients of the information should conduct their own independent analysis, credit assessments and other reviews and evaluations which are customary and necessary to reach a final decision about the participation in certain facilities. It should be noted that the summaries of contracts, legislation and other documents included in the report are no replacement for examination of the corresponding full texts. As of the date on which this information is published, it is not possible to guarantee that the information has not changed since being collected and that all information provided is still valid. Elia System Operator S.A./N.V. is under no obligation to update the information.

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The management of Elia System Operator S.A./N.V. issued a declaration of completeness in writing to Euler Hermes Rating GmbH.

We have prepared this report to the best of our abilities and knowledge.

Euler Hermes Rating GmbH

Hamburg, 03 June 2015

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Rating Committee

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Principal sources of information

- Certified consolidated financial statements for 2012-2014 of Elia System Operator S.A./N.V./Elia Asset S.A./N.V. (Elia) and Eurogrid GmbH (Eurogrid) as well as annual financial statements for 2012-2014 of Ecetia Intercommunale SCRL (ECETIA; public law entity) and Ecetia Collectivites SCRL (public law entity)
- Certified opening balance sheet of Solar Chest S.A.
- Excerpts from the internal reporting system of Elia, Eurogrid and the Ecetia Gruppe (e.g. business performance in 2014, tariff calculations, analysis of bank liabilities, etc.)
- Market analyses
- Strategy and corporate planning activities of Elia, Eurogrid, Ecetia and Solar Chest S.A.
- Preliminary Financial Model of Solar Chest as of 26 May 2015
- Corporate and financing agreements, Elia Group
- Legislation, regulatory framework
- Talks with the Management of Ecetia, Solar Chest S.A. and Elia
- Information memorandum of the transaction for the reservation of green certificates (27.01.2015)
- Preliminary Offering Circular with respect to the private placement of € 200-300 million, status as of 22 May 2015
- Preliminary agreement for the purchase and reservation of green certificates between Elia, Solar Chest and Security Agent, status as of 22 May 2015

Rating methodology

Issuer rating of Euler Hermes Rating GmbH of December 2014
(<http://www.ehrg.de/seiten/Methodik2014.pdf>)

Appendix 1: Rating notations

Category	Explanatory note
AAA	AAA rated companies have the highest quality, are characterized by an extremely positive future outlook and are viewed as "first-class". Even though the various security elements can certainly change, such changes – to the extent this can be assessed - are highly unlikely to adversely affect the fundamentally strong position of such companies.
AA	AA rated companies demonstrate very high quality with respect to future security. Along with the AAA rated companies, this group forms the so-called "quality class." Security margins may, however, be comparatively thinner, the solidity of the security elements may fluctuate more or individual assessment components may indicate a greater long-term risk than is the case for AAA rated companies.
A	AA rated companies demonstrate high quality with respect to future security. They show many favourable features which secure their future. Nevertheless, there may be isolated factors which reveal a slightly increased susceptibility to the worsening of circumstances and general economic conditions in the future.
BBB	BBB rated companies demonstrate reasonable quality with respect to future security. Compared to A rated companies, however, it is more likely that worsening of general economic conditions could weaken the capability of fulfilling financial obligations.
BB	BB rated companies still have structures adequate to secure their future. Yet they are subject to greater insecurities. Negative business developments or changes in the general financial and economic conditions can make it impossible for them to fulfil their financial obligations in a suitable manner any longer.
B	B rated companies lack the usual structures to secure their future. Negative business developments or changes in the general financial and economic conditions will most likely make it impossible for them to fulfil their financial obligations in a suitable manner any longer.
CCC	CCC rated companies have structures which greatly endanger the security of their future. Capital service is in jeopardy. Such a company is dependent on a favourable development of general economic conditions if it is to be able to meet its financial obligations in the long term.
CC	Companies receiving a CC rating have very little security for their future. Capital service is in great jeopardy.
C	C rated companies have the least future security of all. The basic conditions enabling such debtors to fulfil their financial obligations are extremely poor. Default is imminent.
D	Companies with a D rating are already in default of payment or have filed for bankruptcy. The D rating is irrelevant for the future; it solely documents the bankruptcy of the company.
SD	If an issuer defaults with respect to a certain financial liability or class of liabilities defaults but is still able to honour its payment obligations under other financial liabilities or classes of liabilities, the issuer is assigned SD (selective default) status.
NR	A debtor or an issuer not rated by Euler Hermes Rating is classified as NR (Not Rated).
PLUS (+) MINUS (-)	Rating notations from AA to CCC may be complemented by a PLUS (+) or MINUS (-) if required, in order to show their relative position within the respective rating category.

Appendix 2: Shareholder and transaction structure

