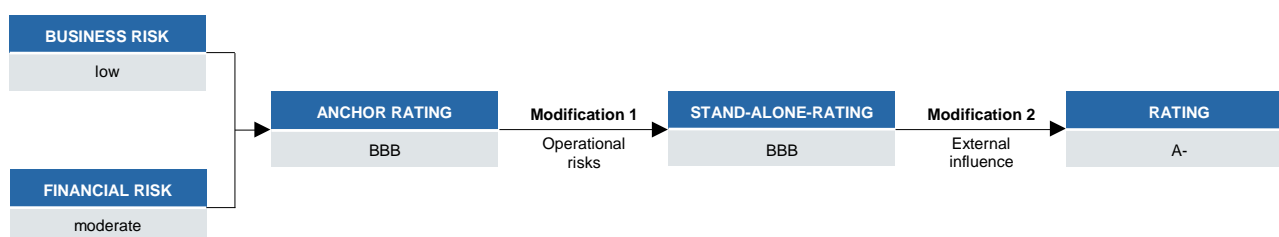


# Issuer Rating

<b>Elia System Operator S.A./N.V.</b>		11 July 2017	<b>A-</b>
		Issuer rating	
		Outlook	Stable
Industry	Electricity transmission system operation (TSO) in Belgium and Germany	2016 revenue	€ 800.1 million
		2016 employees	>2,000



<b>BUSINESS RISK</b>	<b>low</b>
<ul style="list-style-type: none"> <li>Secured market position due to very high barriers to market entry as a public utility with nationally and regionally diversified monopolies</li> <li>Ensuring transmission system stability in central Europe by investing heavily in grid expansion and renewable energy integration</li> <li>Risks from changes in the regulatory and energy policy environment</li> </ul>	

<b>OPERATIONAL RISKS</b>	<b>- 0</b>
<ul style="list-style-type: none"> <li>Appropriate handling of operational risks overall</li> </ul>	

<b>FINANCIAL RISK</b>	<b>moderate</b>
<ul style="list-style-type: none"> <li>Regulations ensure cash flows, recovery of costs and returns</li> <li>Appropriate financing structure with a significant decrease in the ability to deleverage over the medium term</li> <li>Very good financial flexibility thanks to preferred access to capital markets and funds from municipal shareholders</li> </ul>	

<b>EXTERNAL FACTORS</b>	<b>+ 2</b>
<ul style="list-style-type: none"> <li>High likelihood of financial support from major municipal shareholder Publi-T SCRL</li> <li>High sovereign credit ratings of Belgium and Germany</li> </ul>	

Key financial ratios*	2014 actual	2015 actual	2016 actual
EBITDA margin (%)	49.9	54.5	50.7
ROCE (%)	6.3	6.7	5.9
Equity ratio (%)	36.2	34.0	36.8
Leverage (%)	57.1	55.7	54.1
Total debt / EBITDA	8.7	9.4	9.2
Net debt / EBITDA	6.5	6.1	6.3
EBIT interest coverage	2.5	2.9	3.0
EBITDA interest coverage	3.4	3.9	4.3

\* adjusted on the basis of EHR's analytical methodology

# Rating rationale

**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.**

***Low business risk as a TSO with territorial monopolies***

We assess the business risk of Elia System Operator S.A./N.V. as low. We view as strengths Elia's regional monopolies in Belgium and Germany and its position as a transmission system operator (TSO) with its own transmission infrastructure and government concessions. Heavy investment in modernising the grid, integrating renewable energy into the grid, and expanding supranational transmission lines in northwestern and central Europe will, in our opinion, improve grid stability and resilience and reduce the threat of black-outs over the long term. Regulatory grid development plans and incentive systems appear likely to ensure the achievement of build-out targets and limit the need for costly redispatch requests that curtail feed in of renewable energy to the grid, bring central power plant reserves online and increase imports of electricity from adjacent control areas. We believe Elia has the potential to provide new digital services in the network management and integrated smart grid solutions for optimising power flows. The Elia Group is broadening its service and problem-solving capabilities as it expands its international consulting business. In our view, its risks include growing EU deregulation and withdrawal of the concession.

***Moderate financial risk thanks to secured cash flows and very good financial flexibility despite rising debt***

We rate the Elia Group's financial risk as moderate. Its earning potential and financing structure are reasonable in our view given its secured cash flows, reasonable returns on equity and its legally protected ability to recover its regulatory costs. However, we expect that its ability to deleverage will increasingly be impacted by its need to finance large growth investments and its potential obligation in 2020-2022 to repurchase the green certificates that Solar Chest S.A. bought from Elia. Thanks to its preferred access to funding from municipal shareholders, good access to capital markets, large cash reserve and freely available lines of credit we value Elia's financial flexibility as very good. We see risks in the dividend expectations of its shareholders. The investments and business projections for the coming years appear realistic to us overall. We expect electricity rate decline to affect business beyond the 2020 financial year.

***Modifications to the anchor rating due to external factors***

In our view, the Elia Group has reasonable structures, processes, systems and basic conditions in place to achieve its strategic goals. We believe the operational risks are consistent with the anchor rating. We consider the high economic priority of Elia's public utility role for Belgium and Germany, the tight integration and the high (sub)sovereign credit ratings of Belgium, Germany, the Belgium provinces and municipalities to be positive rating factors. Therefore we lift the stand-alone-rating of BBB up by two-notches to A-.

# Disclaimer

Solar Chest S.A. (client) engaged Euler Hermes Rating GmbH to conduct a rating of the Elia System Operator S.A./N.V. (rated entity) on 25 March 2015 with the approval of Ecetia Intercommunale SCRL (public law entity) in connection with the placement of a Fixed Rate Secured Note issue by Solar Chest S.A. Solar Chest S.A. was not visited. Elia System Operator S.A./N.V. was visited on 19 June 2017.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 11 July 2017. This rating report was given to Elia System Operator S.A./N.V. on 13 July 2017, thereby concluding the rating process.

The rating is Euler Hermes Rating GmbH's opinion of the creditworthiness of a rated entity. It is not a statement of fact. Euler Hermes Rating GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

The rated entity is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The rated entity has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the rated entity cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

The rating is published on Euler Hermes Rating GmbH's website ([www.eulerhermes-rating.com](http://www.eulerhermes-rating.com)) or published for subscribers (e.g. on a portal) and will be followed by a subsequent one-year monitoring process. During this period, the rated entity and the sector and business environment in which it operates will remain under observation. The representatives of the rated entity remain subject to a full disclosure obligation during this period. Any change in Euler Hermes Rating GmbH's rating assessment will result in a change in the published rating notation, meaning that this notation represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if a follow-up rating is performed.

Please note that summaries of contracts, laws and other documents contained in the rating report cannot replace careful study of the complete texts. Euler Hermes Rating GmbH cannot guarantee that the information used to prepare this report has not changed since it was collected and is still accurate at the time of publication. Euler Hermes Rating GmbH is under no obligation to complete the information that it considered when issuing the rating.

The dissemination and use of this rating report may be prohibited by law in certain jurisdictions. Euler Hermes Rating GmbH therefore recommends that any persons who come into the possession of this information inquire about and comply with any prohibitions that may be in place. Euler Hermes Rating GmbH assumes no liability of any kind with respect to the dissemination and use of the rating in any jurisdiction whatsoever.

Euler Hermes Rating GmbH

Hamburg, 13 July 2017

## Analysts

Karl Holger Möller, senior analyst and project manager  
Michel Graire, analyst

## Rating committee

Dörte Mählmann, director  
Holger Ludewig, director

## Principal sources of information

- Certified consolidated financial statements for 2014-2016 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 2014-2016 of Ecetia Intercommunale SCRL (ECETIA; public law entity), Ecetia Collectivites SCRL (public law entity) and Solar Chest S.A. (2016)
- Excerpts from the internal reporting system of Elia, Eurogrid and the Ecetia Gruppe (e.g. business performance in 2016, tariff calculations, analysis of bank liabilities, etc.)
- Market analyses
- Strategy and corporate planning activities of Elia, Eurogrid, Ecetia Group and Solar Chest S.A.
- 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 January 2015)
- Offering Circular with respect to the private placement of € 275 million, status as of 22 June 2015

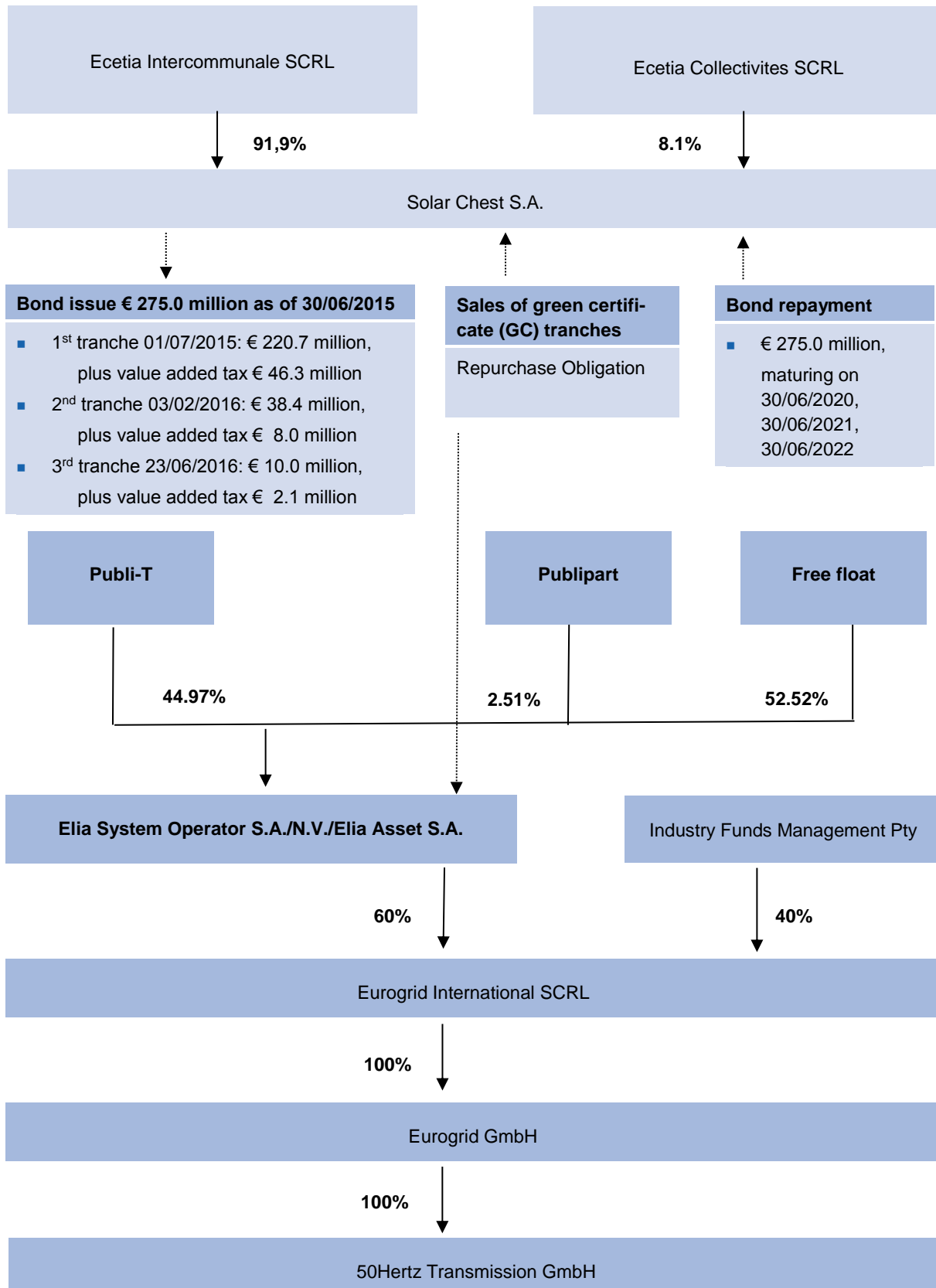
## Rating methodology

Issuer rating of Euler Hermes Rating GmbH of May 2016  
(<http://www.ehrg.de/seiten/Methodology2016.pdf>)

## Appendix 1: Rating categories

Category	Explanation
<b>AAA</b>	In the opinion of EHRG, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
<b>AA</b>	In the opinion of EHRG, AA rated entities demonstrate a very high credit quality with a very low default risk.
<b>A</b>	In the opinion of EHRG, A rated entities demonstrate a high credit quality with a low default risk.
<b>BBB</b>	In the opinion of EHRG, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
<b>BB</b>	In the opinion of EHRG, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
<b>B</b>	In the opinion of EHRG, B rated entities demonstrate a low credit quality with an increased default risk.
<b>CCC</b>	In the opinion of EHRG, CCC rated entities demonstrate a very low credit quality with a high default risk.
<b>CC</b>	In the opinion of EHRG, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
<b>C</b>	In the opinion of EHRG, C rated entities demonstrate a very low credit quality, an event of default is imminent.
<b>D</b> <b>/</b> <b>SD</b>	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
<b>PLUS</b> <b>(+)</b> <b>MINUS</b> <b>(-)</b>	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

## Appendix 2: Shareholder and transaction structure



## Appendix 3: Definition of financial ratios

### Earnings potential and profitability

#### EBITDA margin

EBITDA margin
<b>Numerator</b>
EBITDA
<b>Denominator</b>
Total revenues

#### Returns

ROCE
<b>Numerator</b>
Adjusted operating result (= EBIT)
<b>Denominator</b>
Net financial liabilities + economic Equity (= capital employed)

Total return on capital
<b>Numerator</b>
Adjusted operating and financial result + Interest expense
<b>Denominator</b>
Adjusted total capital

#### Cash flow return on investment

Cash flow return on investment (cash flow ROI)
<b>Numerator</b>
EBITDA
<b>Denominator</b>
Adjusted total capital

## Capital structure and debt to equity ratio

### Debt

Equity ratio
<b>Numerator</b>
Adjusted equity (= economic capital)
<b>Denominator</b>
Adjusted total capital

Debt to equity ratio
<b>Numerator</b>
Net financial liabilities
<b>Denominator</b>
Net financial liabilities + economic Equity (= capital employed)

### Net financial liabilities

Net financial liabilities
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS/factoring transactions
- Cash and cash equivalents

### Degearing periods

Total liabilities / EBITDA
<b>Numerator</b>
Total capital - economic capital (= total liabilities)
<b>Denominator</b>
EBITDA

Net financial liabilities / EBITDA
<b>Numerator</b>
Net financial liabilities
<b>Denominator</b>
EBITDA

### Interest coverage

EBIT interest coverage
<b>Numerator</b>
Adjusted operating result (= EBIT)
<b>Denominator</b>
Interest expense

EBITDA interest coverage
<b>Numerator</b>
EBITDA
<b>Denominator</b>
Interest expense