

# Investor Presentation

## Fluvius System Operator cvba

December 2018

*fluvius.*



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*Please take note of the disclaimer on page 57.*



# 1. Our corporate profile and activities

# Who is Fluvius?



**Fluvius is the overall name for 14 Flemish intermunicipal utility companies and their operating company Fluvius System Operator (FSO), and some other related entities.**

- Fluvius System Operator CVBA was created on 1 July 2018 through the merger of the former Eandis System Operator CVBA and Infrac CVBA.
- Fluvius System Operator is fully owned by 14 intermunicipal companies, 11 of which are energy DSOs. Fluvius is the operating arm of these intermunicipalities.
- These 14 intermunicipal shareholders of Fluvius have operations in
  - (1) the regulated electricity and gas distribution (11 intermunicipal DSOs)
  - (2) the regulated sewerage system (4 intermunicipalities)
  - (3) the contract-based cable TV infrastructure business , abbr. CATV (3 intermunicipalities)
- All 14 intermunicipal companies are 100% publicly owned (i.e. by municipalities and provinces\*).
- Fluvius serves approximately 3.5 million access points for electricity, 2.2 million for gas, 0.6 million for sewerage and 0.5 million for CATV. Its utility services cover all of the 308 Flemish municipalities. Fluvius is Flanders' largest utility company.
- Fluvius is strategically important to the Flemish Region (*Moody's rating Aa2 stable*) and its general policy aim of realising Europe's climate and energy objectives.

*\* Due to binding provisions in the Flemish Decree on Intermunicipal Cooperation, the provinces will have exited the intermunicipalities on 31/12/2018 at the latest.*





# Fluvius in figures (end 2017)



6.87 million  
connections

5,330  
employees

681 million € investments

11 billion €  
grid value



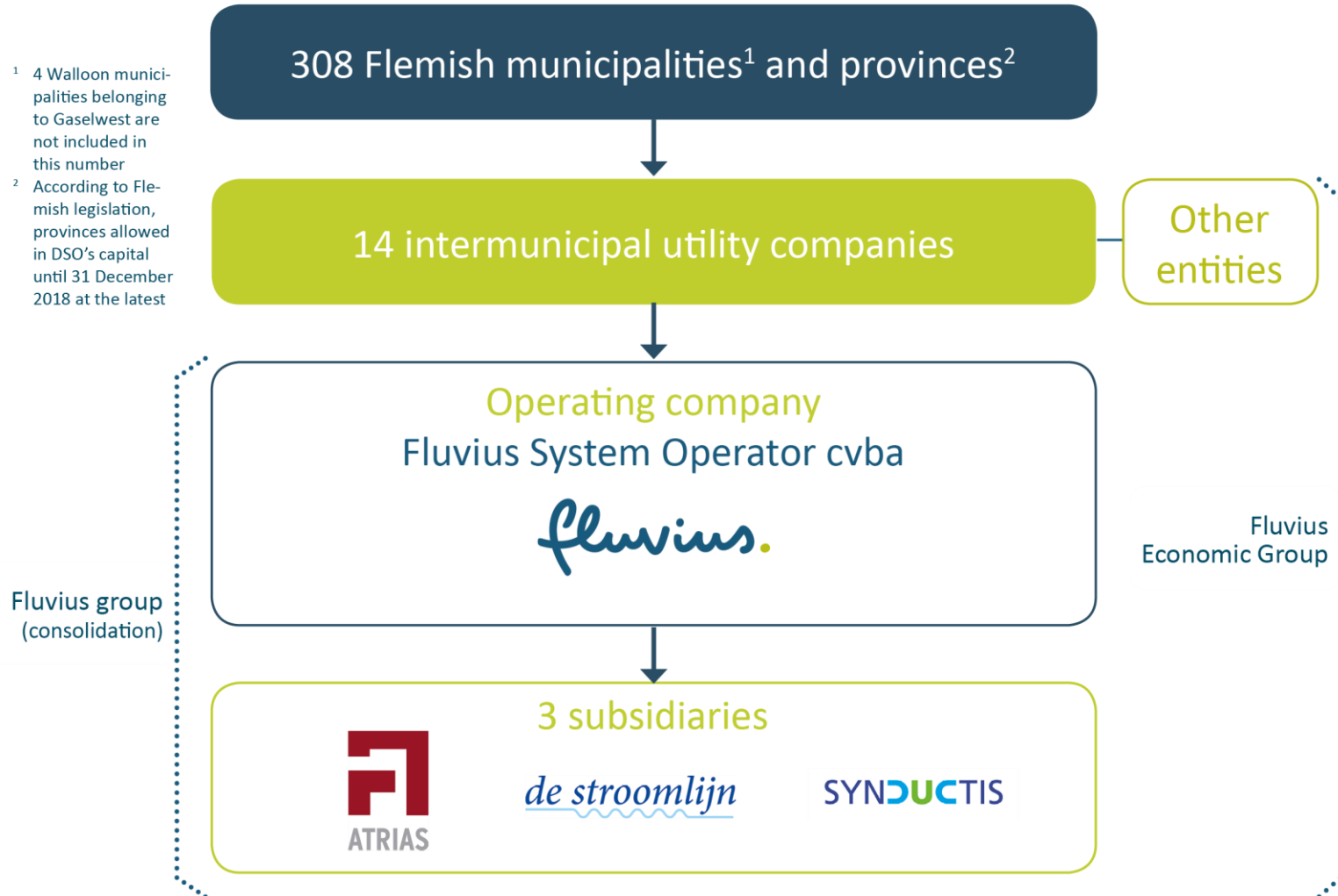
3.5 million  
connections electricity

2.2 million  
connections gas

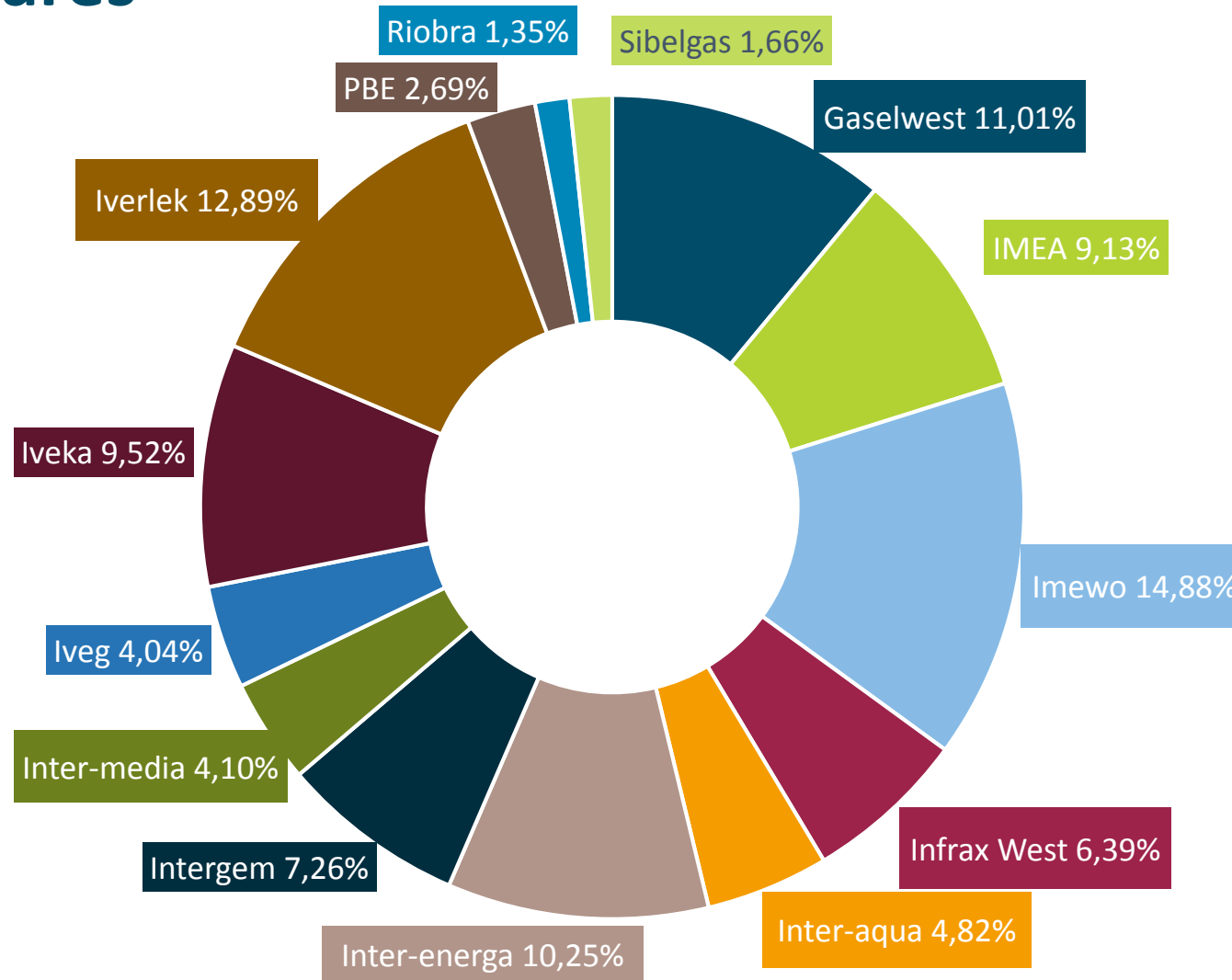
630,000  
connections sewerage

540,000  
connections CATV

# Fluvius Economic Group's Corporate Structure



# Fluvius System Operator's shareholders (31 October 2018) – voting shares





# Corporate Structure for the Fluvius Economic Group



## Transparent and flexible corporate structure:

- flexible decision-making structure allows for maintaining close links with 308 municipalities <sup>(1)</sup>
- structure reflects clear bottom-up division of powers within the Fluvius Economic Group

<sup>(1)</sup> to be reduced to 300 due to mergers of municipalities on 1 January 2019

### FLUVIUS SYSTEM OPERATOR

- Board of Directors with 20 members
- responsible for general strategy & policy, financing, Fluvius corporate matters



### 14 INTERMUNICIPALITIES

- each with its own Board of Directors
- current governance of each intermunicipality remains in place
- responsible for intermunicipality's corporate matters and links with local authorities

# Corporate Social Responsibility

**Strategic focus on sustainability & corporate social responsibility with the overall aim to realize the Flemish climate objectives:**

- Fluvius positioned as the preferred partner of local authorities in their drive towards energy efficiency - >70% of municipalities have started an Energy Services for Local Authorities project
- objective: reduction of our own CO<sub>2</sub> emissions with 20% by 2020 (compared to 2008)
- sustainable mobility: active promotion of electric mobility, implementation of charging infrastructure, CNG and natural gas vehicles
- public lighting: investment programme of EUR 635 million until 2030 for switch to LED technology leading to >45% energy efficiency gains



**LT Environmental Plan 2015-2019:** implementation through annual Action Plans is on track.

**Solar panels** already on 5 Fluvius sites – 672,512 kWh generated in 2017.

Well-defined Corporate Governance policy: **Corporate Governance Charter & Ethical Charter; integral risk management and risk-based internal auditing; ISO 9001** certificate for all core business processes.

Ex-Eandis rated '**Prime**' by **Oekom Research** for its sustainability & corporate responsibility performance (2017)

# Corporate Strategy: mission, vision and strategy

## Our mission

Sustainably connect with society through our multi-utility solutions.

## Our vision

Fluvius wants to become the Flemish multi-utility company, in collaboration with all stakeholders.

## Our strategy

Operational excellence aimed at value creation for all our stakeholders. Focus today is on synergies and broadening the services we offer.



A hand in a dark suit jacket is pointing its index finger towards a large, light-colored star graphic on the right side of the image. The background is a blurred blue and grey.

1 System management of public multi-utilities.

2 Data management independent from the energy market.

3 Making society more sustainable.

4 Taking up our societal role as energy supplier.

5 Additional solutions and services on top of the regulated utility offering.

# Company profile

## Fluvius Management Committee (as from 1 July 2018)



**Walter VAN DEN BOSSCHE**  
Managing Director

**Frank VANBRABANT**  
CEO

- |                        |   |
|------------------------|---|
| Customer Services:     | Tom CEUPPENS                            |
| Data Management:       | Guy COSYNS                              |
| Finance:               | David TERMONT (CFO) &<br>Chris BUYSE    |
| HR & Communication:    | Eric BELIEN &<br>Werner VERLINDEN       |
| ICT:                   | Filip VAN ROMPAEY                       |
| Network Management:    | Jean Pierre HOLLEVOET &<br>Paul COOMANS |
| Network Operations:    | Wim DEN ROOVER                          |
| Regulation & Strategy: | Donald VANBEVEREN &<br>Herman REMMERIE  |
| Secretary-General:     | Nick VANDEVELDE                         |
| Supply Chain:          | Raf BELLERS                             |



# Our strengths – key considerations for investors

- largest Flemish multi-utility with almost 7 million customers served, covering the whole of Flanders
- 100% public shareholders
- low risk business profile across all activities
- robust capital structure and strong liquidity position
- stable cash flows due to tariff regulation or long-term contractual agreements
- highly experienced management and staff
- strategic focus on operational excellence, synergies and sustainability

**Strength of Fluvius System Operator's credit is confirmed by the solid investment grade ratings by Moody's and Creditreform Rating.**





## 2. Recent highlights

# Fluvius System Operator as the merger of Eandis and Infrax



## Rationale for the merger:

- shared interests of Eandis and Infrax had increased over time
- energy transition and switch from grid operator into system operator require a maximum of benefits of scale
- synergies will benefit consumers' end tariffs
- is fully in line with Flemish Government's policy: through Fluvius, one single multi-utility operating company is created for the entire Flemish Region

# Fluvius System Operator as the merger of Eandis and Infrax



## Important dates:

- legal kick-off date: 1 July 2018
- accounting and fiscal retro-activity to 1 January 2018
- commercial kick-off : 7 February 2019



## Legal aspects of the merger:

- Eandis System Operator took over Infrax (*'merger by absorption'*) and immediately changed its name into Fluvius System Operator
- existing shareholders of Eandis System Operator and Infrax have become shareholders of Fluvius System Operator in a 'share-based only' transaction
- no other direct impact on DSOs
- outstanding ex-Eandis bonds will remain guaranteed by ex-Eandis DSO guarantors, outstanding Infrax bonds will remain guaranteed by ex-Infrax DSO guarantors. Future bonds are to be issued by Fluvius System Operator with a guarantee by all Fluvius shareholders.

# 2018 Highlights (1)



- **19 January:** rating agency Creditreform Rating confirms its A+ (stable) rating for Eandis System Operator (*since 18 January 2017*)
- **15 February:** supplying contract for digital meters awarded to IBM/Sagemcom
- **19 March:** rating agency Fitch maintains Infrax's A (negative outlook) rating (*since 30 October 2017*)
- **23 March:** announcement of the planned merger of the DSOs IMEA (Eandis Economic Group), Iveg (Infrax Economic Group) and CATV network intermunicipality Integan, all of these entities being active in the Antwerp region – planned date of merger: 1 April 2019
- **1 April:** DSOs Imewo, Gaselwest, Iverlek, Intergem and IMEA take over the financial participations in Publi-T (44.96% shareholder of electricity TSO Elia) and Publigas (77.53% shareholder of gas TSO Fluxys) previously held by the financing associations Finiwo, Figga, Finilek, Fingem and Finea respectively
- **26 April:** digital meter presented – roll-out in Flanders to start in 2019
- **27 April:** dissolution of subsidiary Warmte@Vlaanderen cvba – district heating activities to be continued by the DSOs through their operating companies Eandis/Infrax and Fluvius System Operator
- **2 May:** Infrax bondholders approve amendments to T&C's of outstanding Infrax bonds
- **28 May:** dissolution of subsidiary Fluvius cvba – digital metering activities to be continued by the DSOs through their operating companies Eandis/Infrax and Fluvius System Operator
- **June:** General Assemblies of all intermunicipal shareholders approve the merger of Eandis/Infrax into Fluvius System Operator
- **26 June:** VREG licenses Fluvius as operating company
- **28 June:** the Extraordinary General Assemblies of both Eandis System Operator and Infrax approve the merger into Fluvius
- **29 June:** Moody's puts Eandis's rating outlook on positive (from stable), maintaining its A3 rating
- **1 July:** formal kick-off for Fluvius System Operator cvba

# 2018 Highlights (2)

- **6 July:** tariff methodology 2017-2020 adapted by VREG to allow for additional criteria to assess reasonable costs and financial stimuli
- **28 August:** VREG decides on the historical balances 2010-2014; DSOs dispute this decision
- **20 September:** VREG adapts tariff methodology 2017-2020 by imposing additional cost savings at the occasion of the Eandis/Infrax merger
- **4 October:** VREG establishes the allowed income 2019 for the DSOs: -7,9% for E and -6,6% for G (exogenous + non-exogenous)
- **23 October:** Flemish Energy Minister postpones the start of the digital meter roll-out until 1 July 2019
- **9 November:** Fitch ends rating coverage for Infrax (A negative)
- **November:** Fluvius receives the Lean & Green Star from the Flemish Logistics Institute for reducing its carbon emissions with 33% in a 5-year period
- **30 November:** Fluvius announces the start of 5 FTTH pilot projects



# Transactions in the pipeline



- **31 December 2018**: exit of the provinces: West-Flanders out of Gaselwest and Imewo, Flemish-Brabant out of Riobra and PBE, and Limburg out of Inter-energa and Inter-media
- **31 December 2018**: exit of the 4 Walloon municipalities out of DSO Gaselwest
- **1 January 2019**: merger of Fluvius intermunicipalities Inter-energa, Inter-media and Inter-aqua into one single entity, “Fluvius Limburg”
- **28 March 2019**: Extraordinary General Assembly of Fluvius System Operator to appoint all members of the Board of Directors on proposal of DSOs/shareholders (statutory 6-year cycle, after municipal elections in October 2018) - before 30 March 2019: also statutory renewal of the governing bodies of all intermunicipal companies on proposal of the municipal councils
- **1 April 2019**: merger of Fluvius DSOs Iveg and IMEA, plus take-over of ‘independent’ CATV intermunicipality Integan, into one single entity, “Fluvius Antwerpen” – switch of 15 municipalities from Iveka to Fluvius Antwerpen, one municipality switches from Iveg to Iveka
- **before 1 January 2021**: only one single DSO for E and G in each municipality allowed by decree; geographically contiguous areas for the DSOs compulsory (no more “islands”)



# 3. Our markets and their regulatory frameworks

# Fluvius's activities (1): Distribution of Electricity and Gas

- electricity and gas distribution grids owned by 11 intermunicipal DSOs – all DSOs execute their operations through their operating company Fluvius System Operator
- area of operations: entire Flemish region (308 municipalities)
- legal basis: Flemish Energy Decree – regulator: VREG
- tariffs and shareholder margin established by VREG based on tariff methodology
- electricity: 3.5 million access points – 1.2 million lighting points – 95,445 km LV grid and 46,690 km MV grid – 32.4 TWh transported
- gas: 2.2 million access points – 47,089 km low-pressure grid and 9,948 km mid-pressure grid – 63.3 TWh transported
- RAB E&G networks (2017): EUR 9.7 billion



# Fluvius's activities (2): Sewerage

- sewerage networks owned by Inter-aqua, Iveg, Infrac West and Riobra that also execute operational activities on these networks (purification excluded) - 84 municipalities (= 27% of Flanders)
- legal basis: Flemish Drinking Water Decree (compliant with EU Water Framework Directive) - regulator: Flemish Environment Agency (VMM))
- fixed assets: EUR 1.1 billion – EUR 60 million invested in 2017
- tariffication aspects:
  - remuneration imposed by law; pass-through via invoice of drinking water companies to end consumers; maximum tariff set at 1.4x supramunicipal tariff
  - drinking water tariff (*'integral water bill'*) consists of (1) the volume of water consumed, (2) sewerage and (3) purification (= Aquafin). For each element there is a fixed contribution, a basic tariff (€/m<sup>3</sup>) and a higher comfort tariff (€/m<sup>3</sup>)
  - drinking water companies pay a municipal waste water contribution to sewerage intermunicipalities
- VMM and municipalities pay investment grants to sewerage intermunicipalities

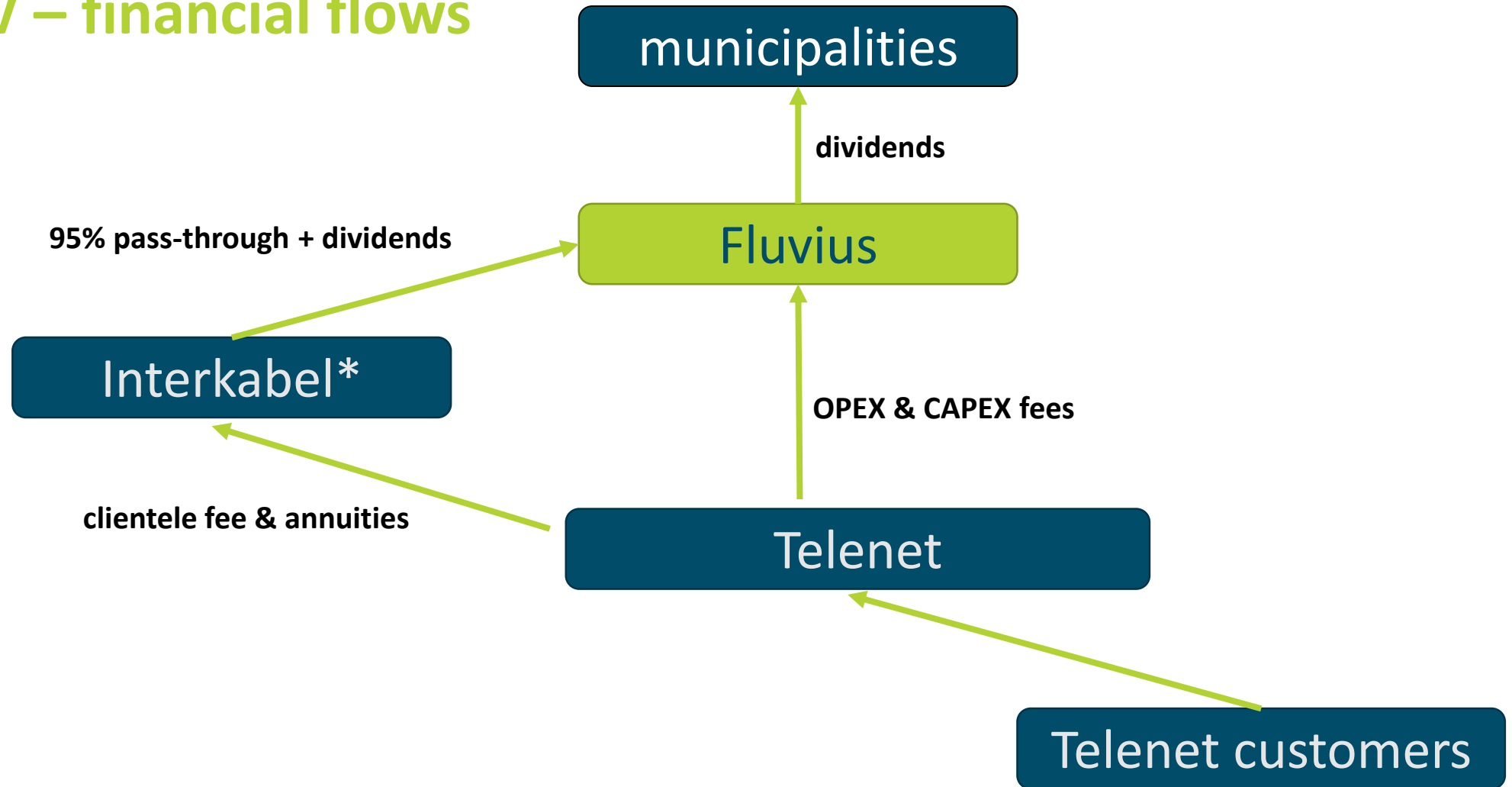


# Fluvius's activities (3): Cable Distribution

- cable network infrastructure owned by Inter-media, PBE and Infrax West
- covers 91 municipalities (= 30% of Flanders)
- regulators: BIPT and VRM
- commercial operations on these networks run by telecom operator Telenet, based on 2 LT-contracts (1996 lease contract and 2008 commercial contract) – no commercial risks at Fluvius entities
- financial aspects: Fluvius receives from Telenet
  - **OPEX fee** : fixed remuneration that follows Telenet's operational costs, until 2046, registered as turnover (2017: EUR 19.4 million)
  - **CAPEX fee** : 6.25% ROI, until 2046, registered as financial revenue (2017: EUR 14.9 million)
  - **Clientele fee**: 60% on original investments, fixed indexed amount until 2046, EUR 8.4 million in 2017  
**Annuities**: 40% on original investments, OLO interest, until end of depreciations (ie currently until 2023), EUR 3.0 million in 2017
  - clientele fee and annuities paid out to **Interkabel**, but with 95% pass-through to Fluvius, together with Interkabel dividends



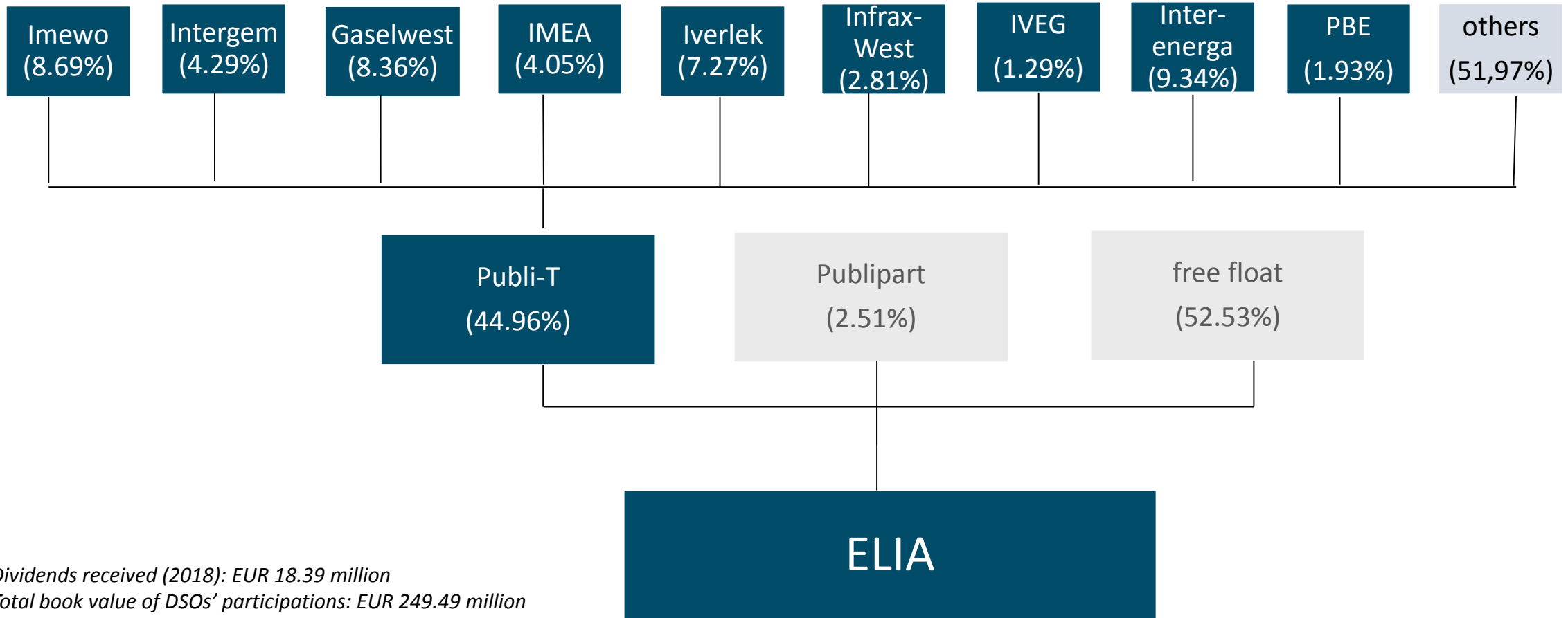
# Fluvius's activities (3): Cable TV – financial flows



\*Interkabel: intermediate structure of Integan and the Fluvius CATV entities

# Fluvius's activities (4): financial participations

## Belgian Electricity TSO Elia

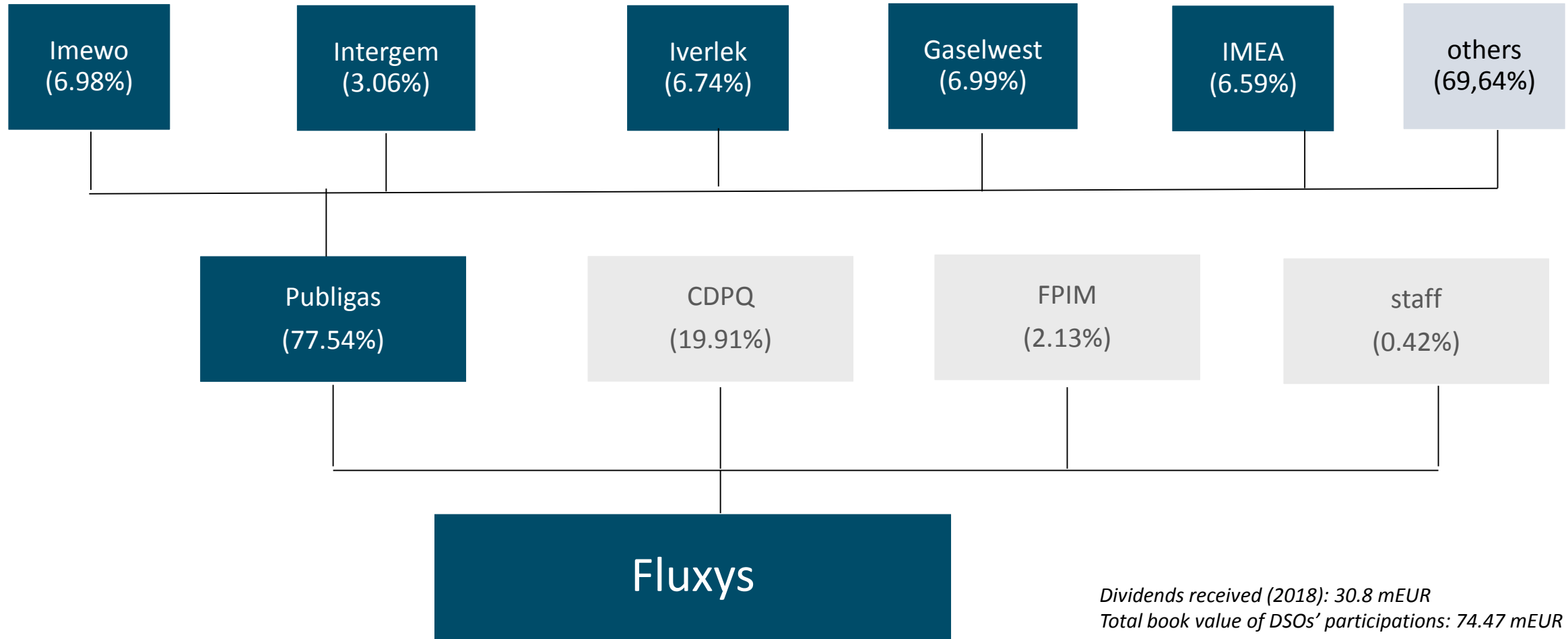


Dividends received (2018): EUR 18.39 million  
 Total book value of DSOs' participations: EUR 249.49 million



# Fluvius's activities (4): financial participations

## Belgian Gas TSO Fluxys



# Fluvius's activities (5): Data Management

How to organise the data flow, a.o. data from digital meters?

Data management is to become a new activity/role for the E&G DSOs, based on a draft Flemish decree.

Concrete modalities, to be established by the Flemish Government



# Fluvius's activities (6): Newest activities

- **District heating:** Fluvius is involved in 17 local projects, with a direct focus on the grid (building and maintenance)
- **Fibre-to-the-Home (FTTH)** for the entire Flemish Region:
  - Fluvius has proposed an offer for the roll-out of an open-access Flemish FTTH grid ('last mile')
  - Fluvius starts a pilot project in 5 municipalities (kick-off early 2019) with Points of Presence approach



# Regulatory Framework E&G

## Distribution Grid Tarification 2017-2020



- 12 December 2017: VREG approved and published the 2018 DSO tariffs, based on the 2017-2020 tariff methodology
- basic tarification principles:
  - **Exogenous costs**: budget-based allowed income with balances budget/reality to be compensated for in subsequent tariff periods
  - **Non-exogenous costs**: revenue regulated ('revenue cap' or 'allowed income'):
    - $AI_n = AI_{n-1} * [1 + CPI - x + q]$  in which
      - AI = allowed income
      - x = efficiency factor
      - CPI = consumer price index
      - q = quality factor (*not yet implemented*)
  - includes a RAB x WACC-based margin for shareholders with gearing [= debt/(debt+equity)] set at 60%
    - cost of equity (post-tax) at 5.24%, with risk-free rate = 1-year average yield on 10y Belgian OLO for 75% & German Bund for 25%, market risk premium at 5.01% (E & G) and equity  $\beta$  at 0.76
    - cost of debt at 3.04%
    - → RAB-based WACC at 3.9% (post-tax); WACC at 5.0% (pre-tax)
- VREG allows for the recovery of regulatory assets/liabilities 2010-2014 over a 5-year period (2016-2020)

## 4. Our financial profile

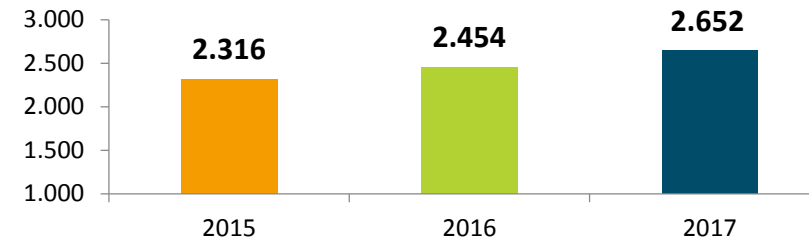
# Financial Overview EANDIS

## Summary Financials FY 2015-2017 (IFRS, actuals) for the Economic Group

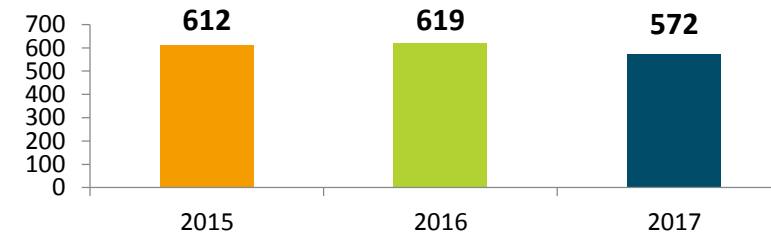


(in mio €)	2015	2016	2017
<b>Statement of Profit/Loss</b>			
revenues	2.316	2.454	2.652
operating revenues	2.678	2.789	3.019
operating expenses	-2.066	-2.170	-2.448
<b>result from operations</b>	<b>612</b>	<b>619</b>	<b>572</b>
net financial income/expenses	-185	-190	-175
profit before tax	427	429	423
profit for the period	284	283	236
other comprehensive income	48	10	141
<b>total comprehensive income</b>	<b>333</b>	<b>293</b>	<b>377</b>
<b>Statement of Financial Position</b>			
current assets	1.815	1.715	1.013
non-current assets	7.908	7.903	7.925
<b>total assets</b>	<b>9.723</b>	<b>9.618</b>	<b>8.938</b>
total equity (attributable to parent)	1.976	2.064	2.255
non-current liabilities	6.027	5.995	5.830
current liabilities	1.719	1.559	853
<b>total liabilities</b>	<b>7.746</b>	<b>7.554</b>	<b>6.683</b>
<b>total equity &amp; liabilities</b>	<b>9.723</b>	<b>9.618</b>	<b>8.938</b>
<b>Cash Flow Statement</b>			
net CF from operating activities	1.283	709	1.174
net CF from investing activities	-431	-351	-393
net CF used in/from financing activities	-857	-359	-752
net increase/decrease of cash/cash equivalents	-5	-1	29
cash + cash equivalents at 31 Dec	4	3	31

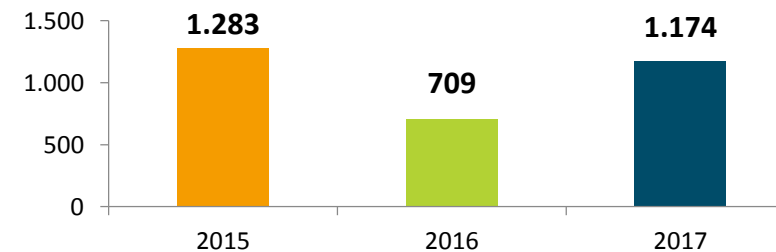
Revenue (in mio €)



Result from Operations (in mio €)



Net CF from Operating Activities (in mio €)



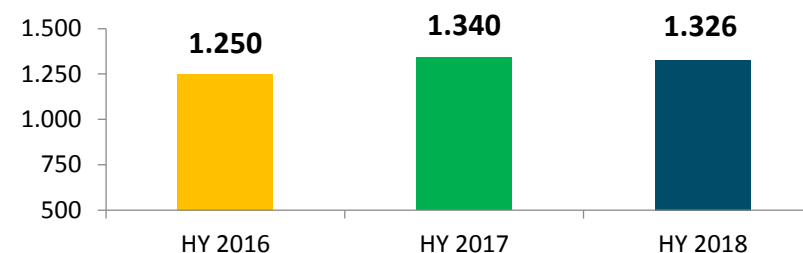
# Financial Overview EANDIS

## Summary Financials HY 2016-2018 (IFRS, actuals) for the Economic Group

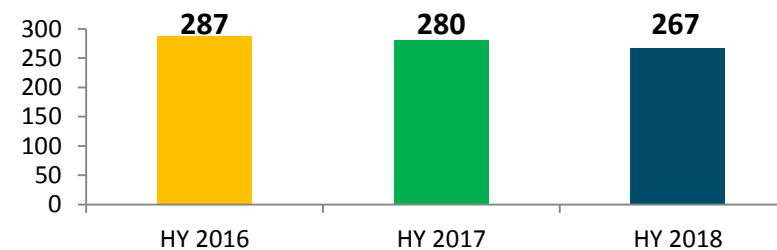


(in mio €)	2016	2017	2018
<b>Statement of Profit/Loss</b>			
revenues	1.250	1.340	1.326
operating revenues	1.410	1.514	1.501
operating expenses	-1.123	-1.234	-1.234
<b>result from operations</b>	<b>287</b>	<b>280</b>	<b>267</b>
net financial income/expenses	-115	-69	-53
profit before tax	172	211	214
profit for the period	119	129	141
other comprehensive income	-22	31	-15
<b>total comprehensive income</b>	<b>97</b>	<b>161</b>	<b>126</b>
<b>Statement of Financial Position</b>			
current assets	1.836	1.367	1.076
non-current assets	7.892	7.923	9.127
<b>total assets</b>	<b>9.728</b>	<b>9.290</b>	<b>10.203</b>
total equity (attributable to parent)	2.031	2.203	3.435
non-current liabilities	5.854	6.096	5.844
current liabilities	1.843	990	923
<b>total liabilities</b>	<b>7.697</b>	<b>7.087</b>	<b>6.767</b>
<b>total equity &amp; liabilities</b>	<b>9.728</b>	<b>9.290</b>	<b>10.203</b>
<b>Cash Flow Statement</b>			
net CF from operating activities	438	621	559
net CF from investing activities	-166	-201	-259
net CF financing activities	-272	-420	-121
net increase/decrease cash/cash equivalents	-1	0	179
cash + cash equivalents at 30 June	3	3	211

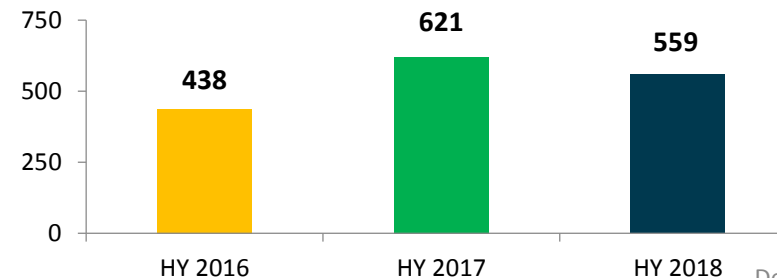
Revenue (in mio €)



Result from Operations (in mio €)



Net CF from Operating Activities (in mio €)



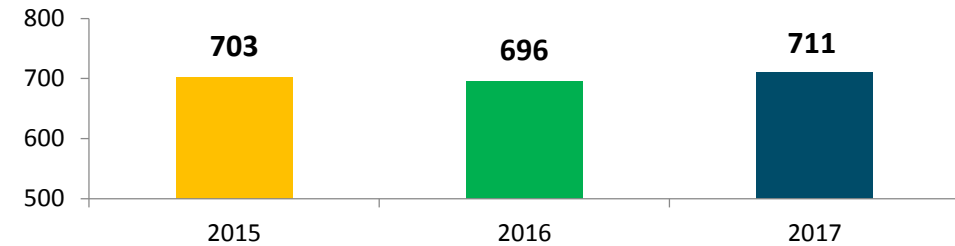
# Financial Overview INFRAX

Summary Financials FY 2015-2017 (BE-GAAP, actuals) for the Economic Group

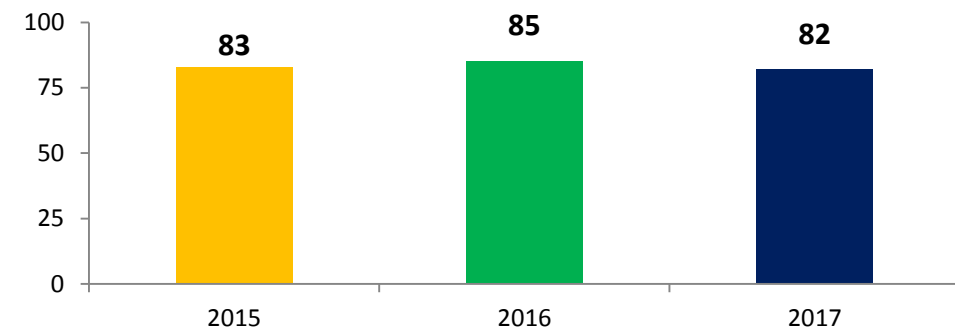


(in mio €)	2015	2016	2017
<b>Income Statement</b>			
turnover	703	696	711
operating income	900	978	880
operating charges	-775	-849	-753
<b>operating profit</b>	<b>126</b>	<b>129</b>	<b>128</b>
financial profit	-10	-8	-4
<b>net profit</b>	<b>83</b>	<b>85</b>	<b>82</b>
<b>Balance Sheet</b>			
current assets	854	687	548
fixed assets	3.408	3.448	3.523
<b>total assets</b>	<b>4.262</b>	<b>4.135</b>	<b>4.071</b>
provisions, deferred taxes	33	33	34
non-current liabilities	977	882	801
current liabilities	552	467	424
<b>total liabilities</b>	<b>1.562</b>	<b>1.382</b>	<b>1.259</b>
shareholders' equity	2.701	2.753	2.812
<b>total equity &amp; liabilities</b>	<b>4.262</b>	<b>4.135</b>	<b>4.071</b>
<b>Cash Flow Statement</b>			
net CF from operating activities	180	413	285
net CF from investing activities	-156	-148	-184
net CF from financing activities	-31	-230	-97

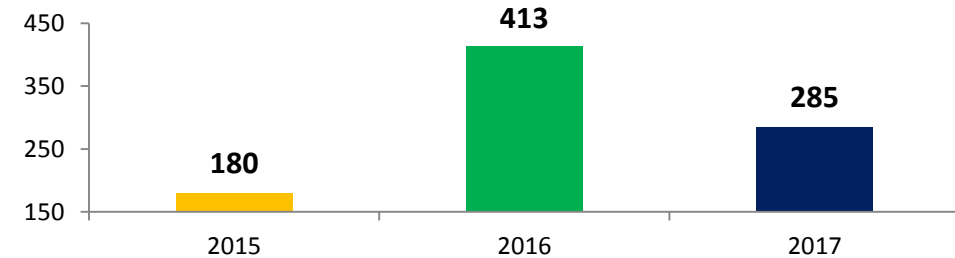
Turnover (in mio €)



Net operating profit (in mio €)



Net CF from Operating Activities (in mio €)





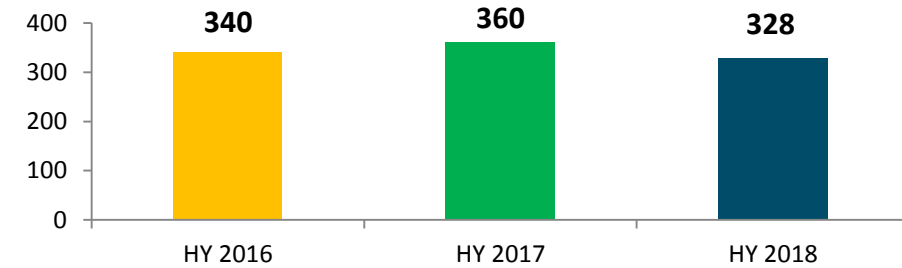
# Financial Overview INFRAX

Summary Financials HY 2016-2018 (BE-GAAP, actuals) for the Economic Group

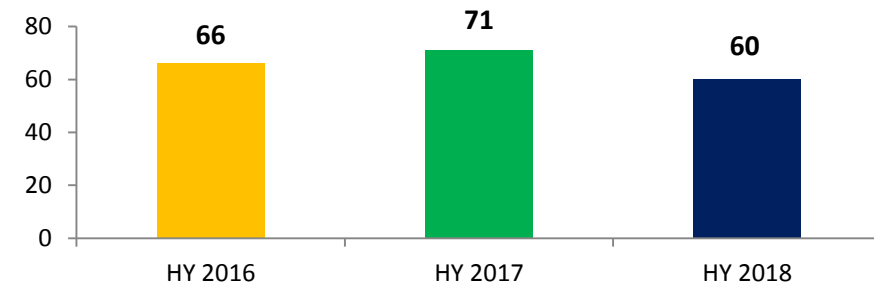


(in mio €)	2016	2017	2018
<b>Income Statement</b>			
turnover	340	360	328
operating income	532	450	397
operating charges	-466	-380	-337
<b>operating profit</b>	<b>66</b>	<b>71</b>	<b>60</b>
financial profit	-1	1	6
<b>net profit</b>	<b>48</b>	<b>50</b>	<b>46</b>
<b>Balance Sheet</b>			
current assets	687	651	509
fixed assets	3.448	3.482	3.560
<b>total assets</b>	<b>4.135</b>	<b>4.132</b>	<b>4.069</b>
provisions, deferred taxes	33	37	36
non-current liabilities	882	850	777
current liabilities	467	432	406
<b>total liabilities</b>	<b>1.382</b>	<b>1.319</b>	<b>1.219</b>
shareholders' equity	2.753	2.813	2.850
<b>total equity &amp; liabilities</b>	<b>4.135</b>	<b>4.132</b>	<b>4.069</b>
<b>Cash Flow Statement</b>			
net CF from operating activities	268	120	102
net CF from investing activities	-53	-68	-61
net CF from financing activities	-150	-45	-80

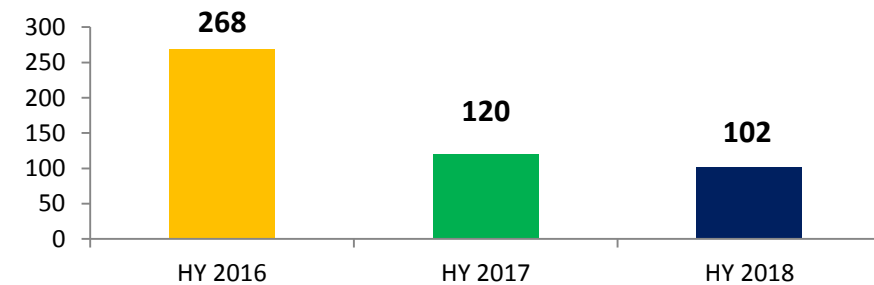
Turnover (in mio €)



Net operating profit (in mio €)



Net CF from Operating Activities (in mio €)



# Moody's Corporate Rating

A3 (positive)

## Credit Strengths:

- strong linkage with the region through provision of essential energy network services
- strong underlying business risk profile from operation of monopoly network assets
- transparent and supportive regulatory framework, but relatively short track record
- conclusion of merger [into Fluvius] bolsters consolidated profile of newly merged economic group, but future financial policy still to be determined

## Credit Challenges:

- relatively high gearing, albeit improving on the back of recovery of regulatory receivables
- cut in allowed returns and continuing high dividend payout will weigh on financial flexibility, but impact softened by regulatory recoveries through to 2020



from: Moody's Credit Opinion  
(29 June 2018)



## CREDIT OPINION

29 June 2018

Update

Rate this Research

## RATINGS

### Eandis System Operator CVBA

Domicile	Belgium
Long Term Rating	A3
Type	LT Issuer Rating - Dom
	Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown

## Eandis System Operator CVBA

Update following outlook change to positive

### Summary

The robust credit quality of Eandis System Operator CVBA (Eandis, A3 positive) reflects that of the seven distribution system operators (DSOs), which own the company and severally guarantee its liabilities. The regulated electricity and gas distribution network operations of the DSOs in Flanders, Belgium, have a low business risk profile, supported by a regulatory framework that is supportive and transparent, albeit relatively new and untested in the context of European regulated network peers following the transition of tariff setting responsibilities from the national to the regional regulators in 2014.

Eandis's credit quality remains constrained by relatively high gearing, albeit reducing on the back of faster than anticipated recovery of certain regulatory receivables. Nevertheless, the company remains more highly levered on the basis of net debt to fixed assets than most rated peers.

## Rating history:

- 12 Oct 2011 - 13 Mar 2014 : A1 (negative)
- 13 Mar 2014 - 2 Dec 2014: A1 (stable)
- 2 Dec 2014 – 14 Dec 2016: A1 (negative)
- 14 Dec 2016 – 29 June 2018: A3 (stable)
- since 29 June 2018: A3 (positive)

# Creditreform's Corporate Rating for Eandis/Fluvius System Operator

**A+ (stable)**

## Credit Strengths:

- business profile reinforced by the creation of Fluvius: the company disposes of a legally based monopoly in a larger territory and its strategic importance has been strengthened
- merger allows a further diversification of essential services, structures simplification and costs reductions
- government-related company
- transparent and supportive regulatory framework
- Fluvius should continue to generate strong predictable cash flows
- low business risk profile for DSOs
- very high degree of willingness by Flemish authorities to financially support the company in a crisis scenario
- guarantee of the DSOs for debt taken by operating company

## Credit Challenges:

- ongoing investments required
- capital-intensive business, high fixed costs
- limited upside potential given the revenue cap



from: Creditreform Rating Report  
(5 October 2018)



Creditreform Corporate Issue Rating  
Fluvius System Operator cvba

**Creditreform Rating**  
www.creditreform-rating.de

Rating object		Rating information	
<b>Long-Term Local Currency Senior Unsecured Issues</b>		Corporate Issuer Rating: <b>A+ / stable</b>	Type: Initial rating Solicited
Type of Issues:	Long-term local currency senior unsecured issues	LT Senior Unsecured Issues, LC:	Other:
Home Markets:	Luxembourg Stock Exchange Euronext Brussels	<b>A+</b>	<b>n.r.</b>
Issuers:	ex-Eandis System Operator cvba and ex-Infrax System Operator cvba	Rating Date:	5 October 2018
Guarantors:	DSOs shareholders respectively	Monitoring until:	withdrawal of the rating
		Publication Date:	15 October 2018
		Rating methodology:	CRA „Corporate Issue Ratings“
		Rating history:	www.creditreform-rating.de

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### Transaction summary

Object of this rating are the long-term ("LT") local currency ("LC") senior unsecured issues ("bonds") issued by Fluvius System Operator cvba ("Fluvius"). Fluvius was formed on 1 July 2018 through the merger of Eandis System Operator cvba ("Eandis") by absorption of Infrax cvba ("Infrax").

All the current outstanding bond issues of Eandis and Infrax will be renamed as Fluvius and outstanding ex-Eandis bonds will remain guaranteed by ex-Eandis distribution system operators ("DSO") guarantors, outstanding ex-Infrax bonds will remain guaranteed by ex-Infrax DSO guarantors.

**Rating history:**

- 18 Jan 2017-5 Oct 2018: A+ stable (Eandis)
- as from 5 Oct 2018: A+ stable (Fluvius)

# Liquidity Facilities (as per 31 October 2018)

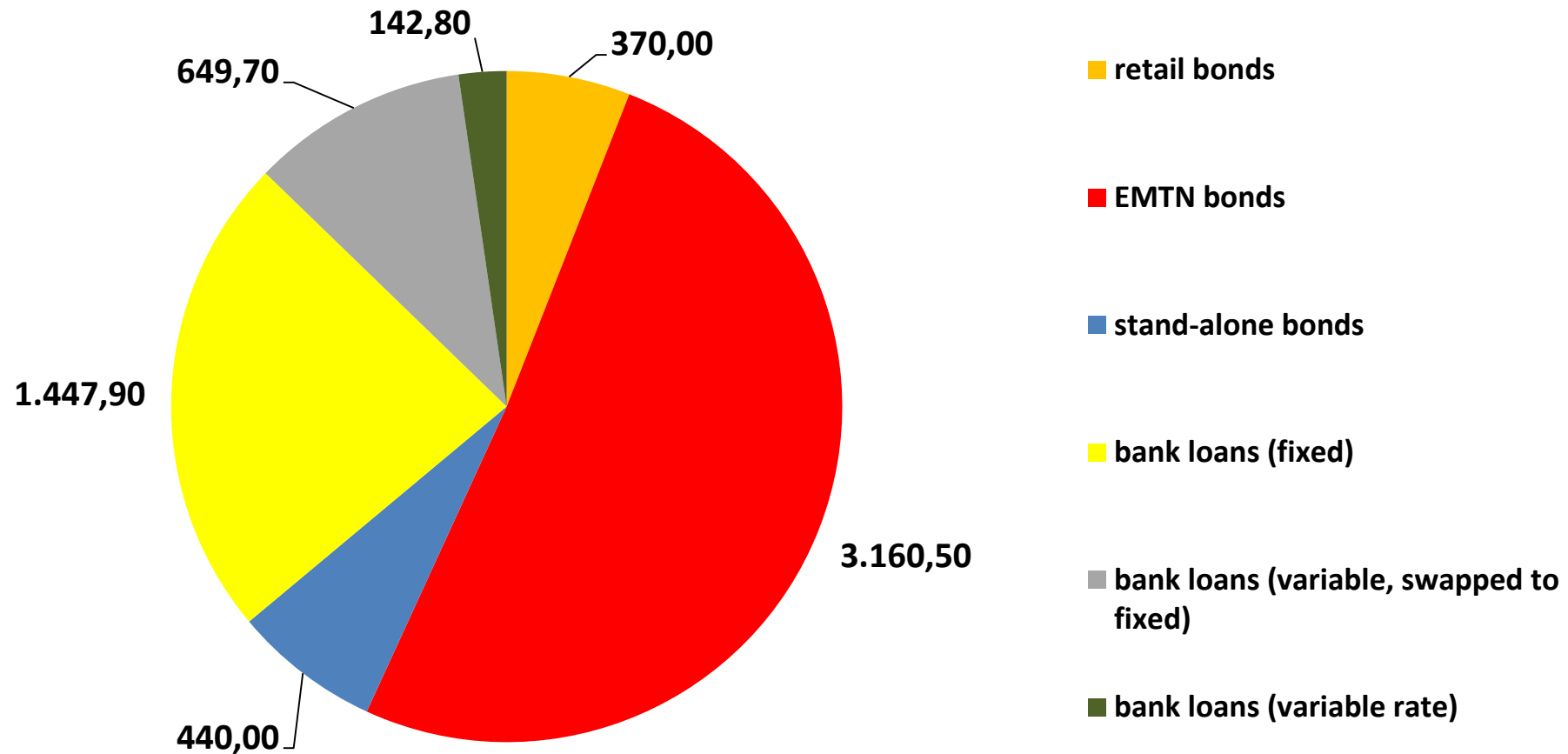


A	Cash facility / Straight Loan	TOTAL : 275 m€ (3 banks)
B	Revolving Credit	TOTAL : 200 m€ (1 bank)
C	Commercial Paper Programme ("Thesauriebewijzen")	TOTAL : 522 m€ (will become 500 m€)

A and B are committed facilities;  
C is a non-committed programme

# Debt Profile (Fluvius Economic Group)

LT Debt Profile by Instrument (6,210.9 m€ outstanding as per 31 October 2018)



# Financial Overview

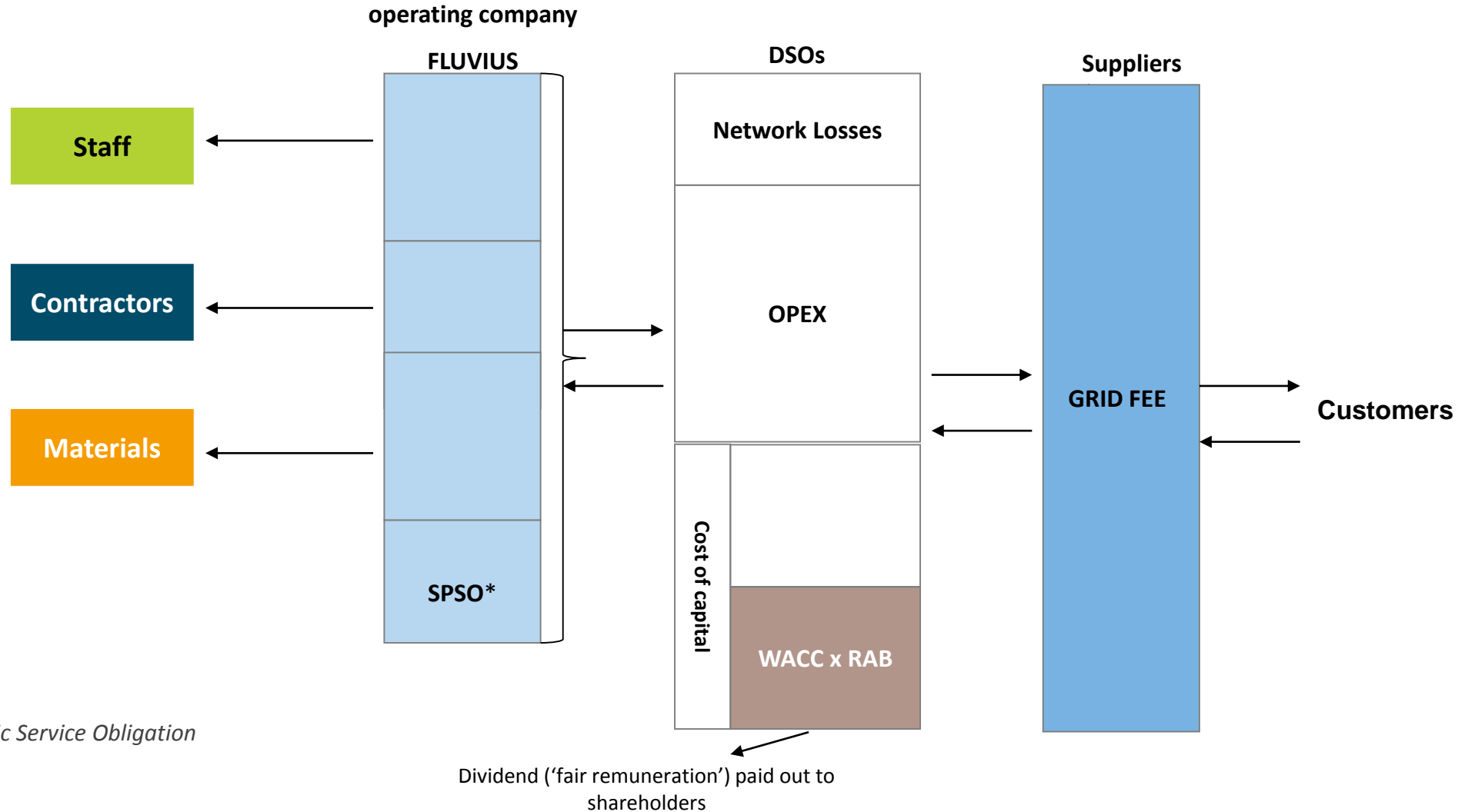
Outstanding bonds at Fluvius (as per 31 October 2018): 3,970.5 m€



Type	E = Eandis I = Infrax	Amount (m€)	Issue Date	Maturity date	Maturity	Coupon
Retail	E	170	30/12/2010	30/12/2020	10	4,250%
EMTN benchmark	E	500	8/11/2011	8/11/2021	10	4,500%
EMTN benchmark	E	500	30/11/2012	30/11/2022	10	2,750%
EMTN benchmark	E	500	9/10/2013	9/10/2023	10	2,875%
EMTN sub-benchmark	I	250	30/10/2013	30/10/2023	10	3,750%
Retail	E	200	23/06/2017	23/06/2025	8	2,000%
EMTN sub-benchmark	E	400	4/12/2014	4/12/2026	12	1,750%
Schuldschein	E	50	21/09/2012	21/09/2027	15	3,500%
EMTN Private Placement	E	54,5	28/03/2013	28/03/2028	15	3,500%
EMTN benchmark	E	550	7/05/2014	7/05/2029	15	2,875%
EMTN sub-benchmark	I	250	29/10/2014	29/10/2029	15	2,625%
EMTN Private Placement	E	135,5	10/07/2012	10/07/2032	20	3,950%
EMTN Private Placement	E	20,5	28/03/2013	28/03/2033	20	3,750%
Private Placement	E	95	27/10/2014	27/10/2034	20	2,600%
Private Placement	E	23	5/03/2014	5/03/2036	22	3,550%
Namenschuldverschreibung	E	50	24/06/2013	24/06/2043	30	3,500%
Private Placement	E	52	5/03/2014	5/03/2044	30	3,550%
Private Placement	E	170	27/10/2014	27/10/2044	30	3,000%

[ in order of maturity date ]

# Cash Cycle E&G distribution



SPSO = Social Public Service Obligation



# FLUVIUS financial policies

Fluvius's detailed financial policies have been outlined by the Fluvius Board of Directors in Q3/4 2018, including:

- long-term financial plan until 2031 (incl investments, tariffs, ...)
- medium-term financing needs
- dividend policy for the Fluvius Economic Group

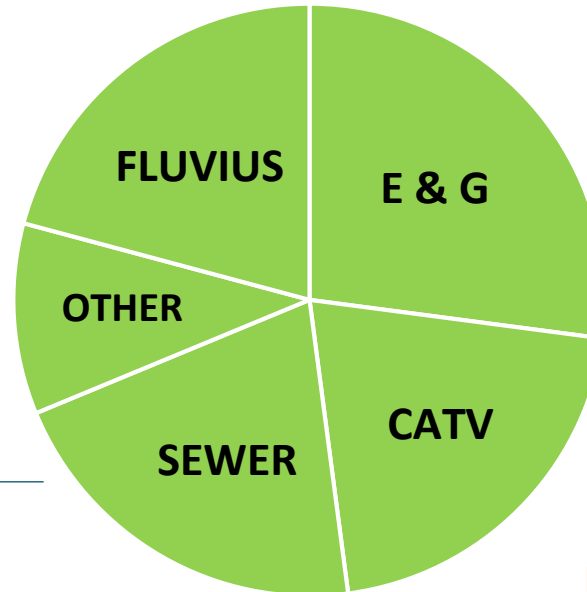


## TRENDS IN THE LONG-TERM FINANCIAL PLAN FOR THE FLUVIUS ECONOMIC GROUP

- ❑ increasing financing needs due to increase in RAB
- ❑ large refinancing needs as from 2021
- ❑ analysis of ST financing facilities finished: lower costs

- ❑ decrease of allowed income (due to regulation) – decreasing tariffs E&G
- ❑ decrease of costs
- ❑ increase of investments
- ❑ profit E&G equals +/- theoretical fair remuneration

- ❑ current business cases indicate a steady growth of turnover and profits,
- ❑ but impact on overall financial profile remains very limited



- ❑ increasing investments trigger
- ❑ increasing sanitation subsidies

- ❑ increase of investments (Telenet, FTTH)
- ❑ increase of depreciations leads to decreasing profits in CATV

# 5. Executive summary

# Executive Summary



<b>Strategic Importance to the Flemish Region</b>	➔	<ul style="list-style-type: none"><li>■ Fluvius covers 100 % of the municipalities of the Flemish region</li><li>■ Fluvius operates essential utility services for Flemish society: electricity and gas distribution, sewerage and CATV networks</li></ul>
<b>Favourable Regulatory Environment for Energy (Revenue Cap)</b>	➔	<ul style="list-style-type: none"><li>■ The energy DSOs have a legally based regional monopoly for electricity and gas distribution</li><li>■ Tariff mechanism with a 4-year regulatory period based on a revenue cap model, including a fair profit margin as remuneration on invested capital</li></ul>
<b>Efficient Operating Scheme</b>	➔	<ul style="list-style-type: none"><li>■ Group structure with 1 operating company (Fluvius System Operator) for several utility companies allows for efficient operations and benefits of scale</li><li>■ Pooling of staff and all operational, financial and management activities</li></ul>
<b>Strong Cash Flow Visibility</b>	➔	<ul style="list-style-type: none"><li>■ Predictable revenue streams in all activities</li></ul>
<b>Low Risk Profile</b>	➔	<ul style="list-style-type: none"><li>■ Low business risk – the DSOs and other intermunicipalities are not involved in competitive activities</li><li>■ Intermunicipalities own 100% of their network infrastructure</li></ul>

The Flemish region (Aa2 stable) is Belgium's (Aa3 stable) most populated region (6.55 million on 1 Jan 2018 – 57.6% of national population)

Moody's on Flanders: "The region's high GDP and income per capita, both from a pan-European perspective and compared with other Belgian federated entities, supports the Flemish Community's capacity to generate revenues and, ultimately, the region's creditworthiness." "The ratings reflect the entity's strong fiscal performance, expected to continue in to the medium-term; and a debt burden which is low relative to Belgian and Aa-rated peers." Flanders' credit strengths: (1) strong track record of budgetary discipline and continued commitment to fiscal consolidation, (2) modest debt burden and ample access to liquidity and (3) strong and diversified economic base." (*Moody's Rating Action 10 Nov 2017 & Moody's Credit Opinion 15 Sep 2017*) i.e. GDP per capita = EUR 37,200 (2016), which is 20% above the EU-28 average. Unemployment in Flanders 2016 at 4.9%, well below the EU-28 level. (*Flemish Regional Indicators, ed. 2017*)

# Contact Fluvius



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*fluvius.*



# 6. Annexes

- Intermunicipalities & DSOs
- Regulation & Tarification
- Fluvius's Subsidiaries
- Overview of Activities (core & related)
- Abbreviations
- Disclaimer



# Company Overview

## Intermunicipalities and DSOs



### Intermunicipalities - Overview

- In Belgium, municipalities are in charge of several public services (waste management, water management, environment, energy distribution, ...)
- The municipalities may organise these tasks in two ways
  - Through a “municipal company“ (also called “regie”) in which each municipality organises the service with its own personnel and financial resources
  - Through an association of several municipalities, (also called “intermunicipality”) in which several municipalities are associated to provide a common service
- Legal status of companies of public law
- In Flanders, intermunicipalities are governed by the Flemish Decree of 6 July 2001 (to be replaced as from 1 Jan 2019 by the Flemish Decree of 22 December 2017 on Local Authorities). All items not explicitly covered by this decree are covered by the corporate rules for a “cooperative company” (“cvba”)

### DSOs - Overview

- Most municipalities opted for intermunicipal associations for their mission of electricity and gas distribution system operator (“DSO”)
- Intermunicipal DSOs - being public law companies - do not have a commercial character, thus the Belgian Act of 8 August 1997 on bankruptcy does not apply
- In view of their mission entrusted by public shareholders, the intermunicipal DSOs perform a public service in a context driven by the principles of equality, continuity, regularity of service in relation to its suppliers and customers, rather than by principles of pure economic profit
- Each intermunicipal DSO holds a legal monopoly for the area covered by its network
- Each intermunicipal DSO owns its proper grid infrastructure
- Each intermunicipal DSO is appointed by the energy regulator VREG for a renewable term of 12 years: ownership of network (or rights of use) is prerequisite for obtaining such a licence – licence for E was renewed in 2014, for G in 2015



# Regulatory Framework E&G

## Purpose and Organisation of the Regulatory Framework in Belgium



### Purpose

#### Organise the energy market in order to

- Increase generation capacity through import and new generation units
- Improve competition on the generation side
- Provide the framework for neutral, technically well integrated and cost efficient networks for gas and electricity transmission and distribution
- Benchmark cost of energy
- Reduce costs
- Permanently monitor the market and if necessary adjust regulations to improve its organisation
- Have a well functioning retail market

#### Take action with a view to satisfy the climate objectives

- Harmonise energy policies with environmental policies
- Promote efficient use of energy
- Promote use of renewable energy and use of CHP (Combined Heat & Power) units

### Areas of Competence

In order to organise the Belgian energy market, one federal (CREG) and 3 regional regulators (Flanders: VREG) were set up

#### CREG's areas of competence

- Electricity generation (except from renewable sources and combined heat & power systems )
- Electricity transmission on > 70 kV grids
- Gas storage and gas transport
- Transmission tariffs

#### The 3 regional regulators' areas of competence

- Local distribution of electricity (voltage  $\leq$  70kV)
- Local distribution of natural gas
- Energy production from renewable sources and combined heat & power systems
- Rational use of energy (RUE)
- (Social) public service obligations
- Organisation of supply market and supply licenses
- Distribution tariffs

# Regulatory Framework E&G

## Flemish Distribution Grid Tarification



DSOs' (and Fluvius's) costs are recovered through the DSO grid tariffs. As to distribution grid tariffs in the Flemish region, the coalition agreement for the current Flemish Government (2014-2019) stipulates the following:

- distribution tariffs to be reformed into purely grid-related tariffs per customer segment, reflecting capacity required by the end user
- tariffs should reflect costs for both off-take and injection
- balances from previous tariff periods to be settled in tariff methodology
- tariffs should take into account the costs for constructing and using the grid
- regional objectifiable differences will be integrated into the tariffs, e.g. grid density (rural vs urban areas)
- a possible uniform contribution for social/ecological public service obligations will be investigated

# Regulatory Framework: public service obligations



*DSOs are crucial in implementing the Flemish Government's public service / social welfare policies.  
In addition, DSOs' role as supplier of last resort indicates the confidence of the Flemish Government in the DSOs' networks and operations.*

- **RUE** (Rational Use of Energy, 'REG' in Dutch)
  - DSOs are required to reduce primary energy use
  - DSOs draw up compulsory annual RUE Action Plans, to be ratified by the VREG
- **certificate mechanism**
  - DSOs are compelled to buy green power certificates and CHP certificates at a predetermined price from the generators - DSOs can sell these certificates at (lower) market prices in an auction procedure
- **PSO** (Public Service Obligations, 'ODV' in Dutch): social, ecological etc.
  - ensure minimum and continuous supply of electricity and gas to all households in Flanders
    - social supplier for customers dropped by commercial suppliers
    - cut-offs from grid connection only allowed in well-defined circumstances (fraud, disused premises etc.)
    - special conditions for protected customers, e.g. free installation of a budget meter
  - ecological: installation, maintenance and operations of charging infrastructure for electric vehicles, as part of the Clean Power for Transport policy
  - global:
    - right of connection to the gas and electricity network (Flemish Government Decision, 19 November 2010)
    - DSOs' annual investment plans to be ratified by VREG
    - supplier of last resort in case a supplier defaults (no legal document as yet, intermediary system currently in place)



# Fluvius System Operator's subsidiary: De Stroomlijn cvba

- Activity: call centre for distribution network related issues
- Shareholders: Fluvius System Operator (64.03%), multi-service company Farys (32.98%), and Synductis (2.99%)
- Board: 7 members (of which 4 for Eandis, incl. Chairman David Termont)
- Staff: 273 <sup>(1)</sup> on 3 sites (Mechelen, Ghent and Ypres)
- Established: 28 December 2006
  
- Operates at cost price (no margin/profit) for its shareholders
- Consolidated according to the integral method
- Financials 2017 (BE-GAAP)
  - Balance sheet total: EUR 4,066,471
  - Share capital: EUR 257,700
  - Debt: EUR 3,808,771 (of which EUR 3,632,651 < 1 year / no LT debt)
  - Turnover: EUR 14,144,062

(1) As per end 2017

# Fluvius System Operator's subsidiary: Atrias cvba



- Shareholders: all Belgian distribution grid operators; Fluvius System Operator owns 50% of share capital
- Board: 12 members (of which 6 for Fluvius, incl. Chairman Walter Van den Bossche)
- Staff: 23 (31 December 2017) – CEO: Frank De Saer
- Established: 9 May 2011
  
- Operates on a federal scale (the whole of Belgium) to obtain maximum economies of scale
- Atrias has developed MIG-6 (Message Implementation Guide, smart-ready) and is developing a clearing house application
- Works at cost price (no margin/profit) for its shareholders
- Consolidated in Fluvius according to the equity method
- Financials 2017 (BE-GAAP)
  - Balance sheet total: EUR 42,041,380
  - Share capital: EUR 18,600
  - Debt: EUR 42,022,780 (of which EUR 41,984,972 < 1 year / no LT debt)
  - Turnover: EUR 22,562,470

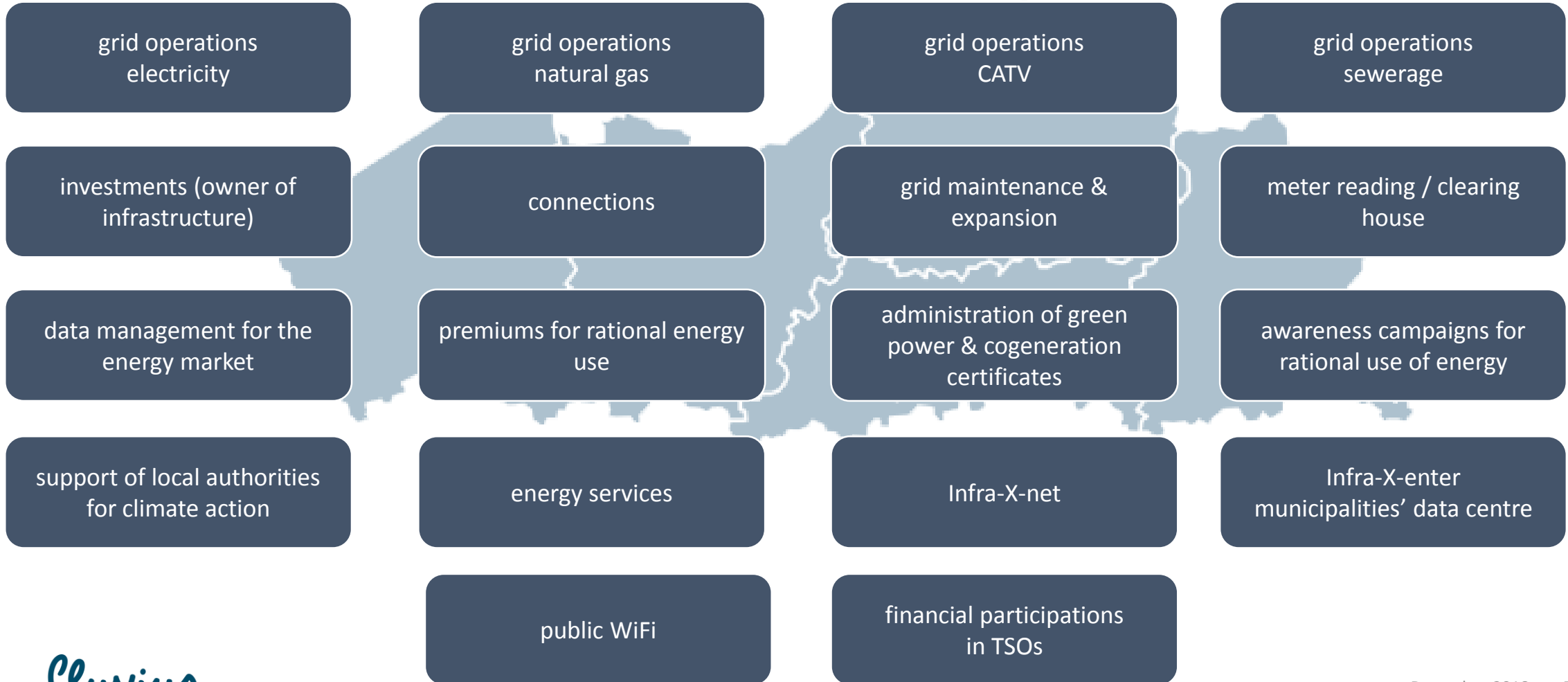
# Fluvius System Operator's subsidiary: Synductis cvba

SYNDUCTIS



- Date of establishment: 21 December 2012
- Shareholders: Fluvius System Operator (33,28%), Aquafin, De Watergroep, Farys, IWVA, IWVB and Proximus [Pidpa and De Watergroep are participating for coordination activities with B shares only ] – open for other utilities to join
- Board: 5 members (of which 2 for Fluvius)
- Staff: none, all operations by staff delegated by shareholders
- Synductis detects synergies between utilities carrying out infrastructure works in the public domain (energy, water, telecom, sewerage a.o.), thus reducing hindrance for the general public and realising cost efficiencies for the utilities
- Works at cost price (no margin/profit) for its shareholders
- Consolidated according to the equity method
- Financials 2017 (BE-GAAP)
  - Balance sheet total: EUR 913,277
  - Share capital: EUR 19,500
  - Debt: EUR 893,777 (only debt < 1 year / no LT debt)
  - Turnover: EUR 1,714,372

# All core and related activities





# Abbreviations



- **BIPT** = Belgisch Instituut voor Postdiensten en Telecommunicatie (= Belgian telecom regulator)
- **CATV** = Cable Television
- **CHP** = Combined Heat & Power (WKK, warmtekrachtkoppeling)
- **CHPC** = Combined Heat & Power Certificate (warmtekrachtcertificaat)
- **CREG** = Commissie voor de Regulering van de Elektriciteit en het Gas (= Belgian federal energy regulator)
- **DSO** = Distribution System Operator (distributienetbeheerder, DNB)
- **EBITDA** = Earnings Before Interest, Taxes, Depreciation and Amortization
- **GPC** = Green Power Certificate (GSC, groenestroomcertificaat)
- **RAB** = Regulated Asset Base (= economic value of network for transmission & distribution of electricity and gas)
- **RUE** = Rational Use of Energy (Rationeel Energiegebruik)
- **RUW** = Rational Use of Water (Rationeel Watergebruik)
- **TSO** = Transmission System Operator (transmissiebeheerder, TNB)
- **VMM** = Vlaamse Milieumaatschappij (= Flemish Environmental Agency)
- **VREG** = Vlaamse Regulator van de Elektriciteits- en Gasmarkt (= Flemish regional energy regulator)
- **WACC** = Weighted Average Cost of Capital (gewogen gemiddelde kapitaalkost)

# Disclaimer



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The term 'Fluvius' refers either to Fluvius System Operator cvba or to the consolidated group (i.e. Fluvius System Operator cvba + its consolidated subsidiaries). The term 'Fluvius Economic Group' refers to Fluvius (consolidated group) + 14 intermunicipal companies\* that are its sole shareholders, and some other related entities. The Fluvius Economic Group is not a legal entity, but for international accounting and consolidation purposes the Fluvius Economic Group can be considered as if it were a single entity.

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\* being: Gaselwest, IMEA, Imewo, Infrac West, Inter-aqua, Inter-energa, Intergem, Inter-media, Iveg, Iveka, Iverlek, PBE, Riobra and Sibelgas