



# Eandis System Operator cvba

## Investor Presentation

*4 May 2017*



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The term 'Eandis' refers either to Eandis System Operator cvba (abbreviated ESO) or to the consolidated group (i.e. Eandis System Operator cvba + its consolidated subsidiaries De Stroomlijn cvba, Atrias cvba and Synductis cvba). ESO's subsidiaries warmte@vlaanderen cvba and Fluvius cvba are not (yet) consolidated. The term 'Eandis Economic Group' refers to Eandis (consolidated group) + 7 distribution system operators\*. The Eandis Economic Group is not a legal entity, but for accounting and consolidation purposes the Eandis Economic Group can be considered as if it were a single entity.

Forward-looking statements in this presentation do not guarantee future performance. Actual results may differ materially from such forward-looking statements as a result of a number of uncertainties or risks, many of which are out of control of Eandis System Operator cvba, its subsidiaries and shareholders [*see Risk Factors in the EMTN Prospectus dated 25 November 2014*]. Forward-looking statements speak only as at the date of this document.

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Due to rounding, numbers presented in this document may not add up precisely to the totals provided and percentages may not exactly reflect the absolute figures.

\* These 7 distribution system operators (DSOs) are: Gaselwest, IMEA, Imewo, Intergem, Iveka, Iverlek and Sibelgas.

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# 1. Executive Summary & Recent Developments

## Executive Summary

**Eandis is the overall name for 7 Flemish electricity and gas distribution grid operators and Eandis System Operator (ESO), their operating company.**

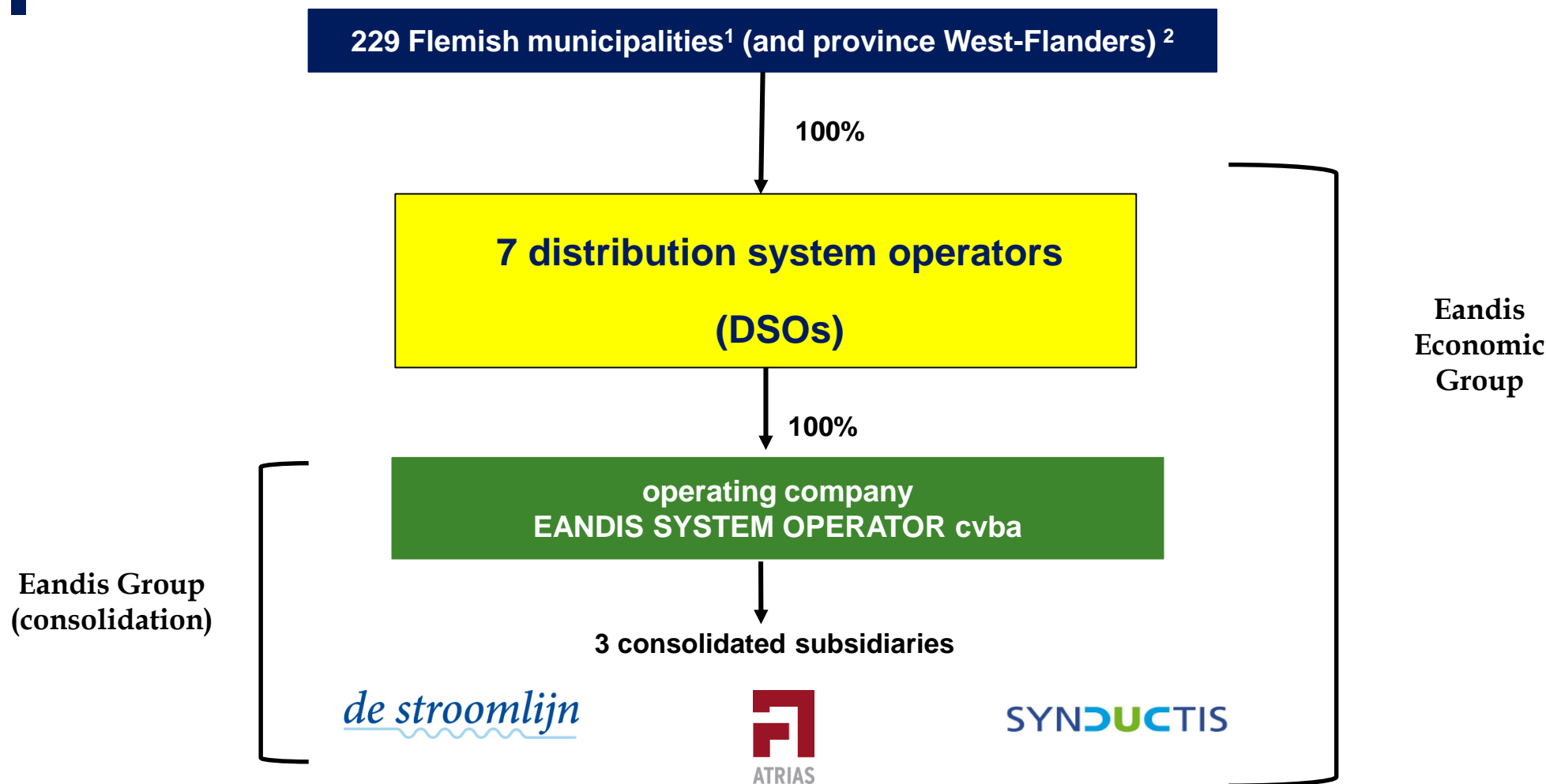
- Eandis System Operator CVBA is fully owned by 7 DSOs. ESO is the **operating arm of the 100% regulated electricity and gas distribution networks owned by these DSOs**, authorised in that role by decision of the Flemish energy regulator VREG (24 February 2015). As such, it is entrusted with a number of quasi-government public service tasks.
- The 7 DSOs are **intermunicipal companies** and **100% publicly owned** (i.e. by municipalities and 1 province) since the exit of Electrabel NV on 29 December 2014.
- Eandis serves approx. **2,7 million access points for electricity** and **1,8 million access points for gas**. Its distribution services cover **229 Flemish municipalities** (approx. 78 % of all Flemish municipalities). Its operating revenue and pre-tax profit (*Eandis Economic Group – IFRS*) were respectively **2,8 bn €** and **428,8 mio €** for 2016.
- The company is of **strategic importance to the Flemish Region** (S&P: AA/F: AA) and its general policy aim of realising Europe's climate and energy objectives.
- Moody's identifies Eandis as a **government-related issuer** given its ownership by Flemish municipalities (and 1 province) and the high probability of systemic support to the DSOs from the Flemish Region. Eandis System Operator's current **rating with Moody's is A3 (stable outlook)** and with **Creditreform A+ (stable outlook)**.

## Executive Summary

<b>Strategic Importance to the Flemish Region</b>	→	<ul style="list-style-type: none"> <li>■ Eandis covers about 78 % of the municipalities of the Flemish region</li> <li>■ Electricity and natural gas are the two most important energy sources in Flanders/Belgium</li> <li>■ Local authorities own 100% of the DSOs' share capital since end 2014</li> </ul>
<b>Very Favourable Regulatory Environment (Revenue Cap)</b>	→	<ul style="list-style-type: none"> <li>■ The DSOs have a legally based regional monopoly for electricity and gas distribution to residential customers and SMEs</li> <li>■ Multi-annual tariff mechanism with a 4 year regulatory period along the principles of a revenue cap model, including a fair profit margin as remuneration on invested capital</li> <li>■ 2017 regulatory tariffs approved by the Flemish energy regulator VREG, based on the tariff methodology for the tariff period 2017-2020</li> </ul>
<b>Efficient Operating Scheme</b>	→	<ul style="list-style-type: none"> <li>■ The associated structure of 7 DSOs with 1 operating company (ESO) allows for an efficient operating scheme and benefits of scale</li> <li>■ Pooling of operational, financial and management activities; all staff at ESO</li> <li>■ Several cost optimisation initiatives launched</li> </ul>
<b>Strong Cash Flow Visibility</b>	→	<ul style="list-style-type: none"> <li>■ Predictable revenue streams based on regulatory framework for the DSOs</li> <li>■ Each DSO has its own separate tariffs for E &amp; G</li> <li>■ Tariffs are fixed for long periods (4 years as from 2017)</li> </ul>
<b>Legal Monopoly and Low Risk Electricity &amp; Gas Distribution</b>	→	<ul style="list-style-type: none"> <li>■ Low business risk – the DSOs are not involved in the competitive energy generation, trading or sales activities</li> <li>■ DSOs own 78% of the distribution network in Flanders</li> <li>■ Legally, competitors may not participate in distribution activities in the designated operating areas</li> </ul>
<b>Conservative Capital Structure</b>	→	<ul style="list-style-type: none"> <li>■ Leverage: equity at 37,1% of RAB (BE-GAAP, as per 31 December 2015),</li> <li>■ The VREG tariff methodology 2017-2020 recommends DSO balance sheet structure with equity/RAB ratio at 40%</li> <li>■ Regulator provides for a WACC-based fair profit margin</li> </ul>
<b>Very Favourable Economic Dynamics</b>	→	<ul style="list-style-type: none"> <li>■ The Flemish region is Belgium's most populated region (6,48 million on 1 Jan 2016 <sup>(1)</sup> – 57,5% of national population)</li> <li>■ "Flanders is one of the wealthiest regions in Europe. It benefits from a well-diversified economy, skilled workforce and high quality infrastructure." "Guaranteed debt and public-private partnerships commitments are high but represent moderate risks, due to the nature of guaranteed entities (public authorities, social housing companies) and also because of the Flemish Community's prudent risk management policies." (<i>Fitch, 11 April 2014</i>) "[...] our view of the "predictable and well-balanced" institutional framework for communities and regions. We also factor in Flanders' very attractive and diversified economy, the community's "very positive" financial management and liquidity, its sound budgetary performance, and very moderate debt. (<i>S&amp;P Research Update 7 March 2014</i>)</li> <li>■ GDP per capita 33.000 EUR (2015). "Of all 134 EU regions Flanders can be found in 18<sup>th</sup> position. (...) Flanders owes its prosperity primarily to a high labour productivity. (...) The Flemish unemployment rate amounts to 5,0% in 2013. Neither Belgium as a whole nor the neighbouring countries have a lower unemployment rate." (<i>Flanders Outlook 2015, Research Centre of the Government of Flanders</i>)</li> </ul>

(1) Source: Statistics Belgium 2016

## Eandis Economic Group's Corporate Structure



(1) 4 Walloon municipalities belonging to Gaselwest are not included in this number,

(2) According to Flemish legislation, provinces allowed in DSO's capital until 31 December 2018 at the latest.

## Corporate Structure for the Eandis Economic Group

### Transparent and flexible corporate structure

- flexible decision-making structure allows for maintaining close links with 229 municipalities
- structure reflects clear bottom-up division of powers within the Eandis Economic Group:





## Eandis vs other Belgian distribution grid operators

### Eandis System Operator versus its peers in Belgium (Infrax, Sibelga, ORES and Resa) <sup>(1)</sup>

Eandis System Operator, Sibelga and ORES exclusively operate electricity and gas networks (**regulated activities**); Infrax also operates cable television and sewerage systems. Resa is part of the Publifin Group, a multi-utility for energy distribution, telecom infrastructure and telecom content, financial investments, ICT services and renewable energies.

Eandis System Operator is by far the largest E & G operator in Belgium, with an integrated operating area, enabling the company to **maximise benefits of scale** [figures as per 31 Dec 2015]:

	Eandis	Infrax	Sibelga	ORES	Resa
municipalities served (E/G)	229	94	19	198	71
operating area	Flanders	Flanders	Brussels	Wallonia	Wallonia
employees	4.041	1.546	1.018	2.267	approx. 900
connections E	2.641.551	751.791	699.282	1.466.942	433.000
connections G	1.740.197	352.772	504.616	534.225	232.000
Regulated Asset Base 2015 E+G (incl. Net Working Capital) – in m€	7.902,5 <sup>(2)</sup>	1.779	1.125,2	3.324,9	1.267

(1) Source: companies' information (annual reports and websites)

(2) Excl. NWC: 7.840,2 m€

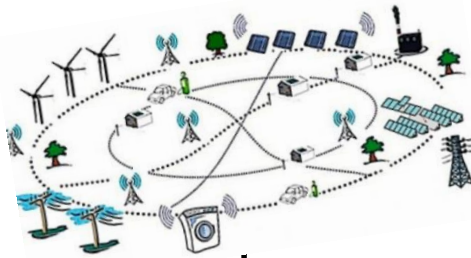
## Corporate Strategy (1)



**regulated core activities:** *operational excellence in delivering high quality services to our customers*

**non-regulated activities:** *make active use of opportunities which support our strategic focus and enhance our strengths [e.g. district heating projects, asset management services etc.]*

## Corporate Strategy (2): our 4 value propositions

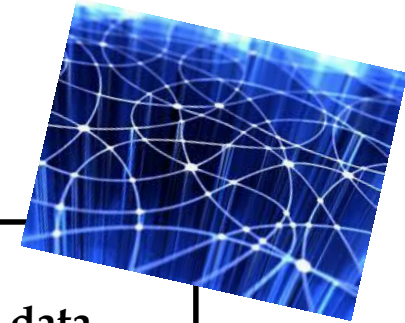


**manage grids in a safe, cost-efficient and reliable way**

**as an independent data manager, promote the smooth functioning of the energy market**

**as a Flemish expertise centre for energy, contribute to the climate objectives**

**reduce energy poverty in collaboration with all parties concerned**



## Executive Summary

### Moody's Corporate Rating for Eandis System Operator

**A3 (stable)**

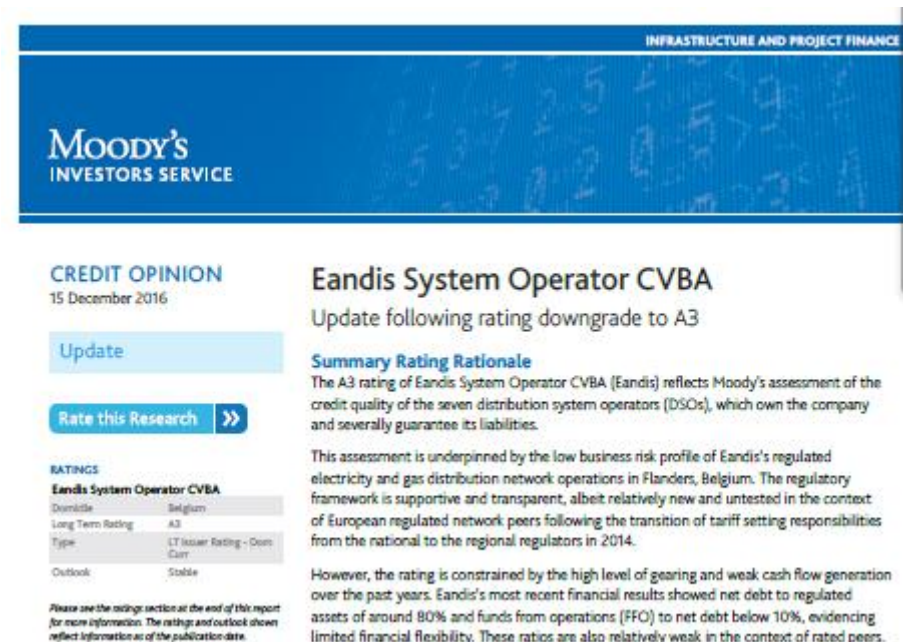
#### Credit Strengths:

- rating underpinned by 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
- certainty on timing for recovery of outstanding regulatory balances will boost cash flows to 2020, somewhat offsetting lower return allowances

#### Credit Challenges:

- financial metrics have deteriorated over recent years with increasing levels of debt. Absent balance sheet strengthening, recovery will likely be very slow
- cut in allowed returns and continuing high dividend payout will weigh on financial flexibility

*from: Moody's Credit Opinion  
(15 Dec 2016)*



**Moody's**  
INVESTORS SERVICE

**CREDIT OPINION**  
15 December 2016

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**RATINGS**  
**Eandis System Operator CVBA**

Domestic	Belgium
Long Term Rating	A3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

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

**Eandis System Operator CVBA**  
Update following rating downgrade to A3

**Summary Rating Rationale**  
The A3 rating of Eandis System Operator CVBA (Eandis) reflects Moody's assessment of the credit quality of the seven distribution system operators (DSOs), which own the company and severally guarantee its liabilities.

This assessment is underpinned by the low business risk profile of Eandis's regulated electricity and gas distribution network operations in Flanders, Belgium. The regulatory framework 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.

However, the rating is constrained by the high level of gearing and weak cash flow generation over the past years. Eandis's most recent financial results showed net debt to regulated assets of around 80% and funds from operations (FFO) to net debt below 10%, evidencing limited financial flexibility. These ratios are also relatively weak in the context of 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)**
- **as from 14 Dec 2016: A3 (stable)**

# Executive Summary

## Creditreform's Corporate Rating for Eandis System Operator

**A+ (stable)**

### Credit Strengths:

- low insolvency risk compared with sector end overall economy
- strategic importance for the region with a transparent and supportive regulatory framework (guaranteed revenues, predictable cash flows)
- natural regional monopoly
- low business risk profile for DSOs
- probable and assumed support of regional authorities if needed

### Credit Challenges:

- ongoing investments required
- capital intensive business, high fixed costs
- relatively high pay-out ratio
- high gearing and net debt/EBITDA ratios

*from: Creditreform rating report  
(18 Jan 2017)*

**Creditreform corporate rating**  
Eandis System Operator cvba (Group)

**Creditreform**  
Rating Agentur  
[www.creditreform-rating.de](http://www.creditreform-rating.de)

Rating object		Rating information	
Eandis System Operator cvba (Group)		Rating: <b>A+</b>	Outlook: <b>stable</b>
Creditreform ID:	2000000588	Prepared on:	January 18, 2017
Incorporation:	March 30, 2006	Monitoring period until:	January 17, 2018
(Main) Industry:	Operating company of seven Distribution system operators (DSOs)	Date of release:	January 19, 2017
Management:	Walter Van den Bossche, CEO	Rating methodology:	Corporate ratings
		Rating history:	<a href="http://www.creditreform-rating.de">www.creditreform-rating.de</a>

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#### Abstract

##### Company

Eandis System Operator cvba (*Elektriciteit, Aardgas, Netten en Distributie* - ESO) and its three consolidated subsidiaries are the operating company of seven distribution system operators<sup>1</sup> (DSOs) active in Flanders, Belgium. The company was established in 2006 and is responsible for the distribution of the electricity and gas to private households and SMEs (low or medium voltage/pressure). ESO, its three consolidated subsidiaries and the seven DSOs constitute together the Eandis Economic Group (the EEG – the Group) that owns 97,312 of km electricity

### Rating history:

**as from 18 Jan 2017: A+ (stable)**

## 2016 Highlights (1)

- 1 January: operations and staff of former subsidiary **Indexis** integrated into Eandis System Operator
- **Synductis**: Infrax (sewage activity) and De Watergroep (water distribution) join
- 25 March: decision of the Flemish Government - installation of **charging infrastructure** for electrical vehicles in period 2016-2020 is a new Public Service Obligation for the DSOs
- 18 April: protocol signed between Eandis and **Flemish Energy Company (Vlaams Energiebedrijf)** on joint approach of local authorities
- 19 May: Eandis and Infrax incorporate '**warmte@vlaanderen**', a 50/50 joint venture for the development of district heating projects in Flanders
- 1 June: Eandis announces exclusive negotiations with **State Grid Europe Ltd.** as preferred bidder for a 14% stake in the planned merged DSO entity
- 29 June: Eandis and **State Grid Europe Ltd.** (through State Grid International Development, a wholly owned subsidiary of State Grid Corporation of China) sign a Subscription & Shareholders' Agreement on a **14% stake** of State Grid in the planned merged DSO entity



## 2016 Highlights (2)

- 30 June: exit of the **provinces** Antwerp and East-Flanders – 38,4 mEUR paid out (province of West-Flanders will exit end 2018)
- 1 July: **financing associations** become shareholder in merged DSO (equity injection of 100 mEUR)
- 1 July: **Eandis and Infrax** announce a close **collaboration** in the smart metering project, enhancing overall efficiency in this field
- 25 August: regulator VREG publishes the **tariff methodology** E & G 2017-2020
- 3 October: Extraordinary General Assembly concludes that 2 Conditions Precedent for the DSO merger are not fulfilled. Consequently, (1) the **merger** of the 7 DSOs cannot be finalised, (2) **State Grid Europe's** entry into merged DSO cannot be finalised and (3) the **financing associations'** entry and capital injection have to be reversed.
- 4 November: German rating agency **Creditreform Rating** assigns an unsolicited rating to Eandis
- 30 November: EU publishes its '**Clean Energy for All Europeans**' package
- 14 December: Moody's downgrades Eandis's **rating to A3 (stable outlook)** following the non-realisation of both the DSO merger and the proposed new private partner's equity injection
- 27 December: joint services company **FLUVIUS** will operate for Eandis and Infrax

## 2017 Highlights

- 18 January: rating agency **Creditreform** Rating AG assigns an **A+ (stable) rating** to Eandis System Operator
- 3 February: Flemish Government takes decision on **smart metering roll-out** for the Flemish region: starting in 2019, a gradual roll-out will kick off with priority for new or renovated houses, owners of solar panels and budget meter customers – Eandis System Operator can now start preparations for roll-out
- 28 March: **Eandis System Operator and Infrax** confirm that they are working on the integration of both operating companies after such announcement was made by the Flemish Energy minister – concrete decisions by the competent governing bodies of both groups are expected in the course of 2017



## Corporate Social Responsibility

- Strategic focus on **sustainability & corporate social responsibility** with the overall aim to realize the Flemish climate objectives:
  - Eandis positions itself as the **preferred partner of local authorities** in their drive towards energy efficiency - positive response to **Energy Services for Local Authorities** (>70% of municipalities started a concrete 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
- **LT Environmental Plan 2015-2019**: implementation through annual Action Plans is on track
- **Solar panels** on HQ (Melle) and office buildings in Sint-Niklaas - 5 more sites to follow – total generation capacity of 854.000 kWh per year
- Well-defined and documented Corporate Governance policy: **Corporate Governance Charter & Ethical Charter**
- **Integral risk management** and **risk-based internal auditing**; **ISO 9001 certificate** for all core business processes
- First **combined Activity & CSR Report 2016** underlines importance of sustainability for Eandis System Operator's overall strategy

## Investment highlights

### Key considerations

Strategic importance to the Flemish Region



Legal monopolistic business and low risk electricity & gas distribution



Regulated business with strong and predictable cash flow generation



Attractive financial profile



Favourable & stable regulatory environment



Efficient operating scheme with benefits of scale and highly experienced management



**Strength of Eandis System Operator's credit is confirmed by two solid ratings (Moody's and Creditreform).**



## 2. Financial Overview (Economic Group)

- Summary financials FY 2014-2016
- Capex programme 2016 (actuals)
- Short term financing
- Debt and maturity profile
- Investment programme 2017-2019
- Financing needs and funding 2017-2019
- Financial policies and strategy

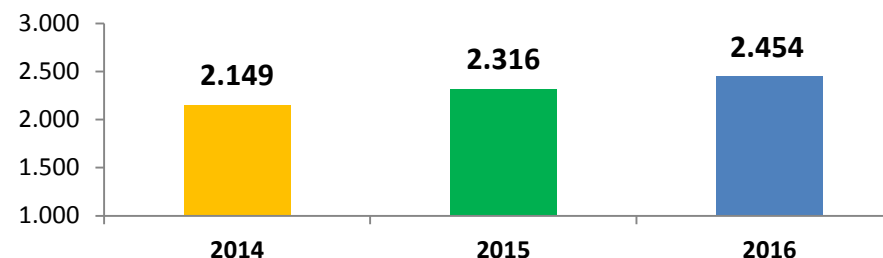
## Financial Overview

### Summary Financials FY 2014-2016 (actuals) for the Economic Group

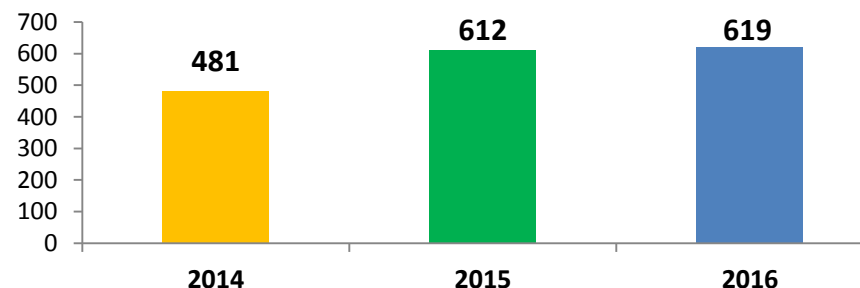
#### Financials (IFRS)

(in mio €)	2014	2015	2016
<b>Statement of Profit/Loss</b>			
Revenue	2.149	2.316	2.454
Total Operating Income	2.781	2.678	2.789
Total Operating Expenses	-2.300	-2.066	-2.170
<b>Result from Operations</b>	<b>481</b>	<b>612</b>	<b>619</b>
Net Financial Income/Expense	-253	-185	-190
Profit before Tax	228	427	429
Profit for the period	417	284	283
Other Comprehensive Income	-546	48	10
<b>Total Comprehensive Income</b>	<b>-129</b>	<b>333</b>	<b>293</b>
<b>Statement of Financial position</b>			
Current Assets	2.306	1.815	1.715
Non-Current Assets	7.855	7.908	7.903
<b>Total Assets</b>	<b>10.161</b>	<b>9.723</b>	<b>9.618</b>
Total Equity (attributable to parent)	2.607	1.976	2.064
Non-Current Liabilities	6.464	6.027	5.995
Current Liabilities	1.089	1.719	1.559
Total Liabilities	7.552	7.746	7.554
<b>Total Equity &amp; Liabilities</b>	<b>10.161</b>	<b>9.723</b>	<b>9.618</b>
<b>Cash Flow Statement</b>			
Net CF from Operating Activities	-337	1.283	709
Net CF from Operating Activities**	573		
Net CF from Investing Activities	-497	-431	-351
Net Cash Flow used in/from Financing Activities	837	-857	-359
Net Increase/Decrease of Cash + Cash Equivalents	4	-5	-1
Cash + Cash Equivalents on 31 Dec	9	4	3

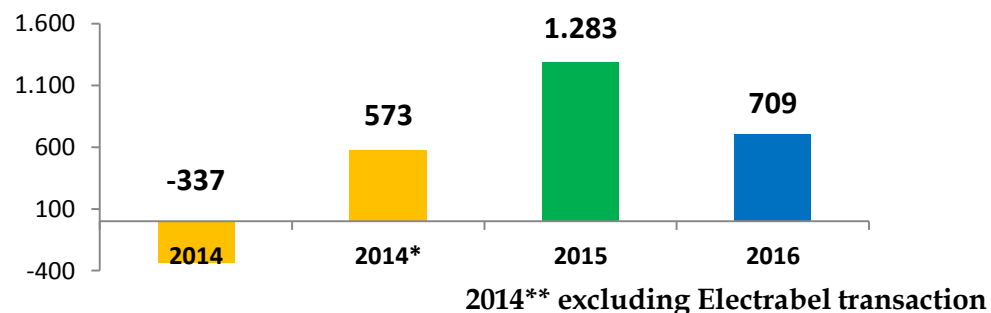
#### Revenue (in mio €)



#### Result from Operations (in mio €)



#### Net CF from Operating Activities (in mio €)

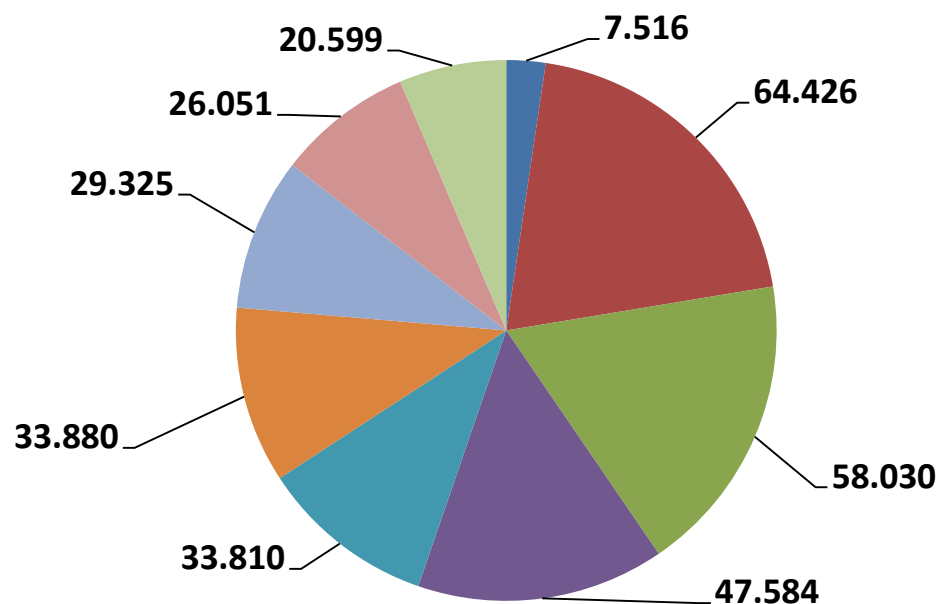


## Financial Overview

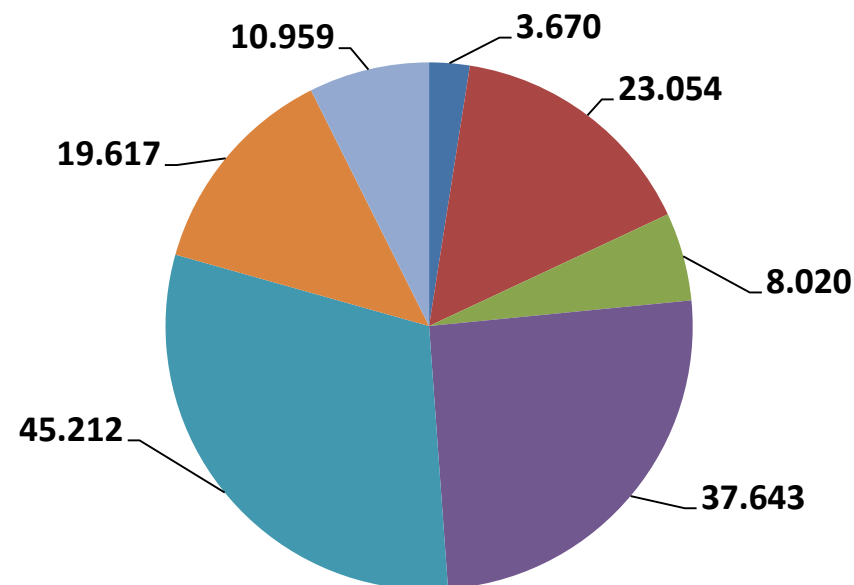
### Capex Programme 2016 (actuals – gross investments)

**Electricity: 321,2 mio € (2015: 364,5 mio €)**

**Gas: 148,2 mio € (2015: 172,3 mio €)**



■ transformer stations    ■ mid-voltage lines    ■ distribution cabins  
 ■ low-voltage lines    ■ low voltage connections    ■ metering  
 ■ buildings, vehicles etc.    ■ smart meter project    ■ public lighting



■ stations    ■ mid-pressure pipes    ■ distribution cabins  
 ■ low-pressure pipes    ■ connections    ■ metering  
 ■ smart meter project

**CAPEX/Total Net Fixed Assets: 6,1% (2015: 6,9%)**

**2016 investments in district heating: 4,1 m€  
(2015: 0,3 m€)**

## Short term financing capacity and debt

### Liquidity Facilities (as per 1 January 2017)

#### Straight Loan & Debet Line with Cash Pooling

- Bank account draft facility: 200 m€
  - negative balance: 56,3 m€
- Overnight cash facility: 200 m€
- 0 € drawn
- Both committed and non-cumulative in use

#### Revolving Credit Line & Straight Loan

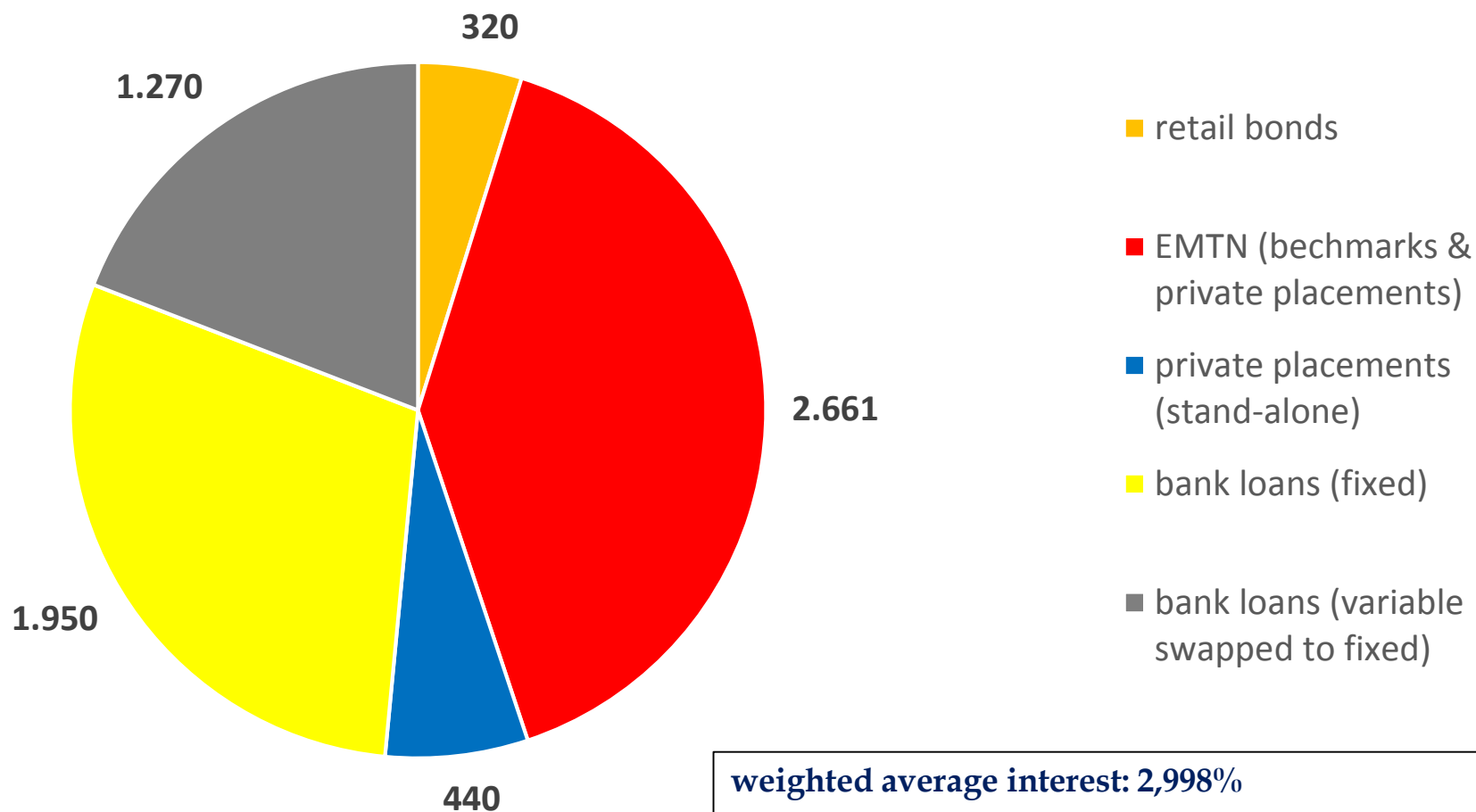
- Total size of facilities: 300 m€
- Outstanding as per 1 January 2017: 0 €
- Committed

#### Commercial Paper Programme (*"Thesauriebewijzen"*)

- Total size of facilities: 522 m€
- Outstanding as per 1 January 2017: 355 m€
  - 50 m€ with 2 week maturity (expiry 13 Jan 2017)
  - 50 m€ with 1 month maturity (expiry 31 Jan 2017)
  - 155 m€ with 2 month maturity (expiry 7 Feb 2017)
  - 100 m€ with 2 month maturity (expiry 13 Feb 2017)
- Non-committed

## Debt Profile (Economic Group)

LT Debt Profile by Instrument (6.641 m€ outstanding as per 31 December 2016)



weighted average interest: 2,998%

weighted average maturity: 10 years 8 months

## Financial Overview

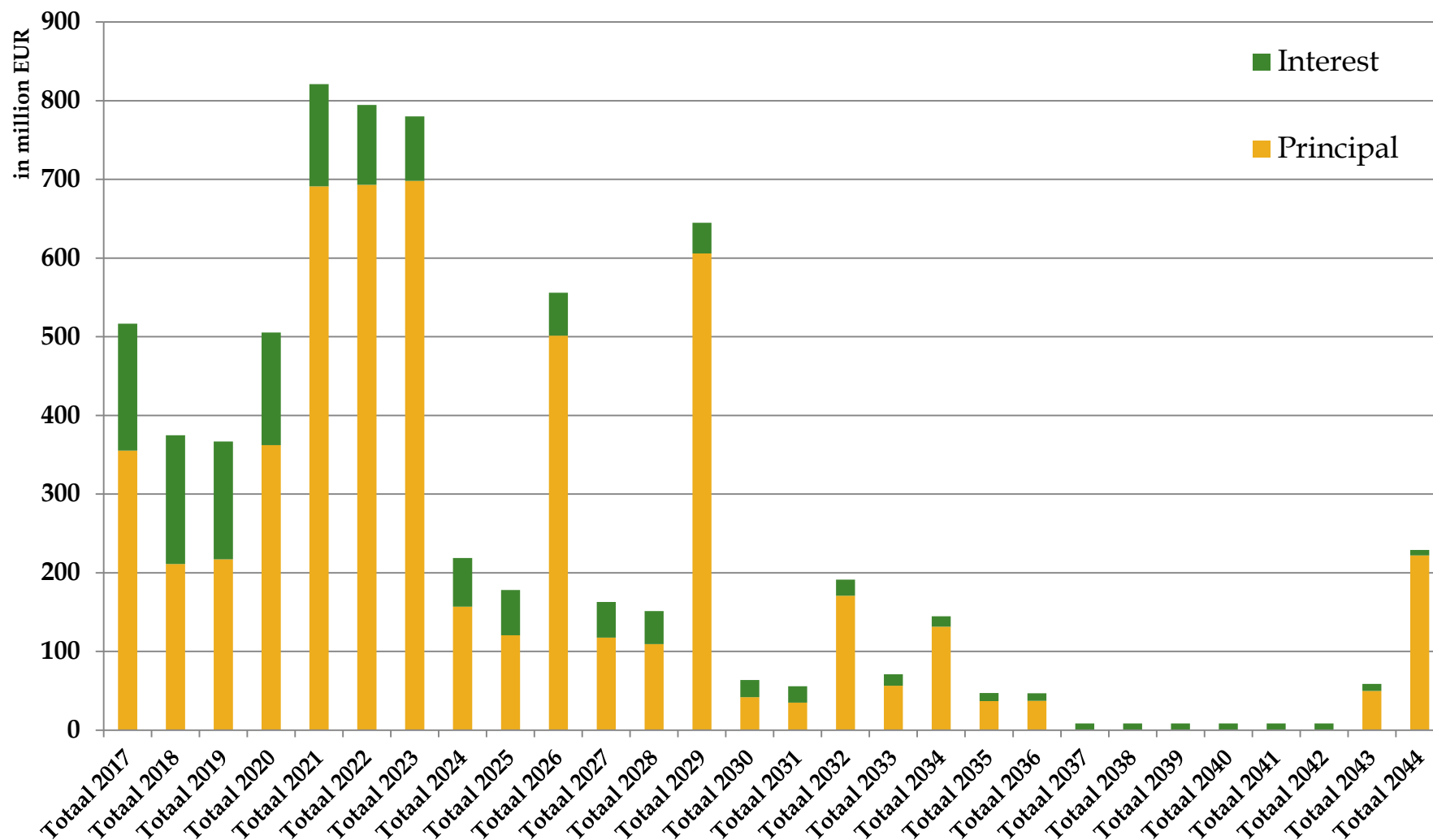
Eandis's outstanding bonds (as per 31 Dec 2016): **3.420,5 m€**

[ in order of maturity date ]

Type	Amount (m€)	Issue Date	Maturity date	Maturity	Coupon
Retail	150	23/06/2010	23/06/2017	7	4,000%
Retail	170	30/12/2010	30/12/2020	10	4,250%
EMTN benchmark	500	8/11/2011	8/11/2021	10	4,500%
EMTN benchmark	500	30/11/2012	30/11/2022	10	2,750%
EMTN benchmark	500	9/10/2013	9/10/2023	10	2,875%
EMTN sub-benchmark	400	4/12/2014	4/12/2026	12	1,750%
Schuldschein	50	21/09/2012	21/09/2027	15	3,500%
EMTN Private Placement	54,5	28/03/2013	28/03/2028	15	3,500%
EMTN benchmark	550	7/05/2014	7/05/2029	15	2,875%
EMTN Private Placement	135,5	10/07/2012	10/07/2032	20	3,950%
EMTN Private Placement	20,5	28/03/2013	28/03/2033	20	3,750%
Private Placement	95	27/10/2014	27/10/2034	20	2,600%
Private Placement	23	5/03/2014	5/03/2036	22	3,550%
Namensschuldverschreibung	50	24/06/2013	24/06/2043	30	3,500%
Private Placement	52	5/03/2014	5/03/2044	30	3,550%
Private Placement	170	27/10/2014	27/10/2044	30	3,000%

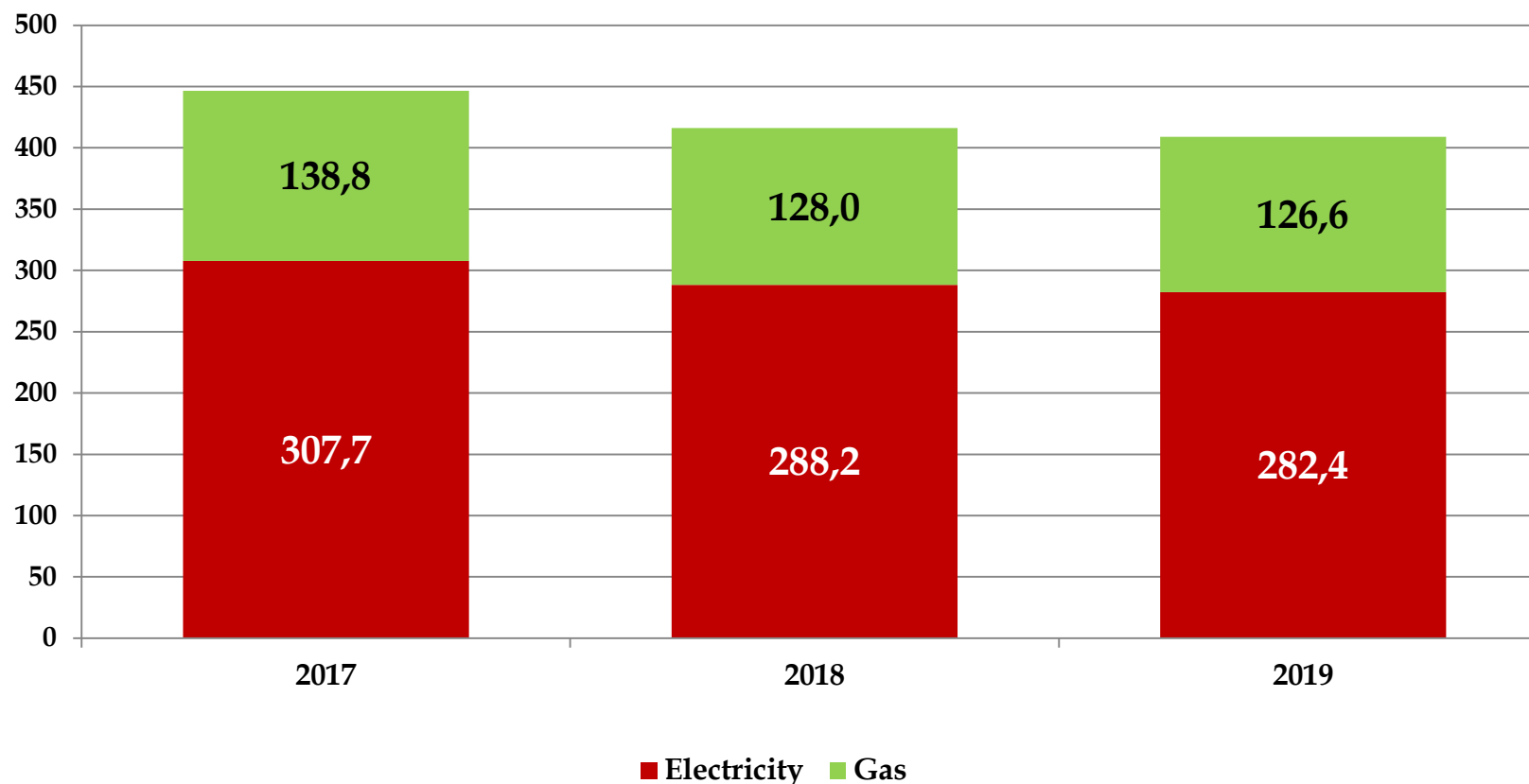


## Maturity Profile LT Financing (Economic Group - 31 Dec 2016)



## Financial overview

Investment programme 2017-2019 (net investments – in mEUR)



Most likely investment programme includes impact of FIT on grid investments and a 100 per cent roll-out of smart metering by 2030. All capex programmes validated by VREG.

## Financial overview

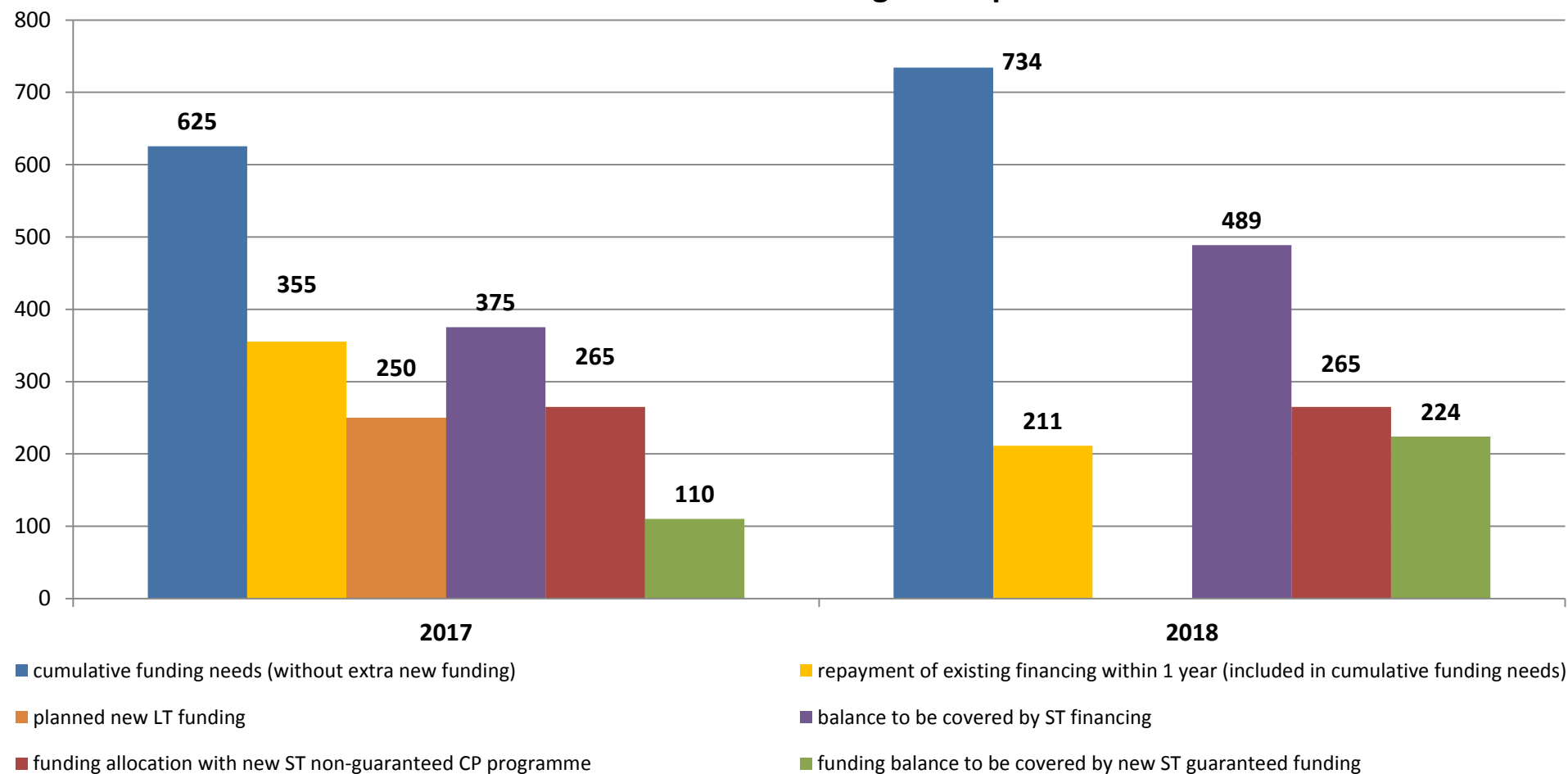
Action Plan FIT: clear focus on efficiency and productivity

- company-wide **Action Plan FIT** launched in June 2013
- **“FIT-Breakthrough”** as follow-up programme, launched in 2016
- FIT aims at 3 components:
  1. clear cut **efficiency and productivity objectives** for grid investments, staff and other costs: grid investment budgets reduced to ‘autofinancing’
  2. implementation of **cost efficiency measures** (after a bottom-up analysis within the framework of Operational Excellence)
  3. implementation of a **change action plan** to reinforce overall **cost awareness**

## Financial overview 2017-2018

Financing needs & funding plans (in mio €)

### Estimated financing needs per 31 Dec



# Financial Overview

## Financial Policies and Strategy

### Operational Basis

- Eandis System Operator operates on a cost price basis
- DSOs operate in a fully regulated framework
- Separate tariff proposals and regulatory accounts per DSO, E and G separately
- All energy suppliers are required in order to receive network access to either (1) provide a letter of credit, (2) obtain a rating, or (3) provide a deposit equal to 3 months upfront network fees

### DSO Capital Structure

- The regulator uses a defined regulated capital structure with preponderance for debt to equity
- Current balance sheet structure at approximately 37,1% equity versus 62,9 % debt (31 December 2015 - BE-GAAP)

### DSO Financial Policies

- Commitment of stable dividend in EUR (until 2019)
- Financial transactions need prior approval by the Board of Directors
- Funds (bank loans, bonds) borrowed by Eandis System Operator solely on behalf of the DSOs (pass-through principle)
- DSOs are guarantors of the debt issued by Eandis System Operator, each in proportion to its capital share in ESO

### Currency

- External funding in EUR only (no exchange rate risks)

### 3. Company & Business Overview

- Ownership structure
- Intermunicipalities and DSOs
- Eandis's Network

## Company Overview

### Ownership Structure

- **Eandis System Operator** is 100% owned by the DSOs Gaselwest, IMEA, Intergem, Iverlek, Imewo, Iveka and Sibelgas
- DSOs themselves are **100% publicly owned**:
  - i.e. municipalities (province West-Flanders participates in Gaselwest and Imewo until end 2018)
  - Sibelgas: important stake held by IBE/IBG
- The current **expiry date** of all DSOs is 9 November 2019\*, as stipulated by Decree
- At the end of the mandate expiry of a DSO, the municipalities can decide to **extend its statutory lifetime for another 18 years**. If a municipality should decide not to take part in such a prolongation, it is obliged to take over from DSO/ESO its relevant assets & liabilities (incl. financial debt), personnel, public service obligations etc.

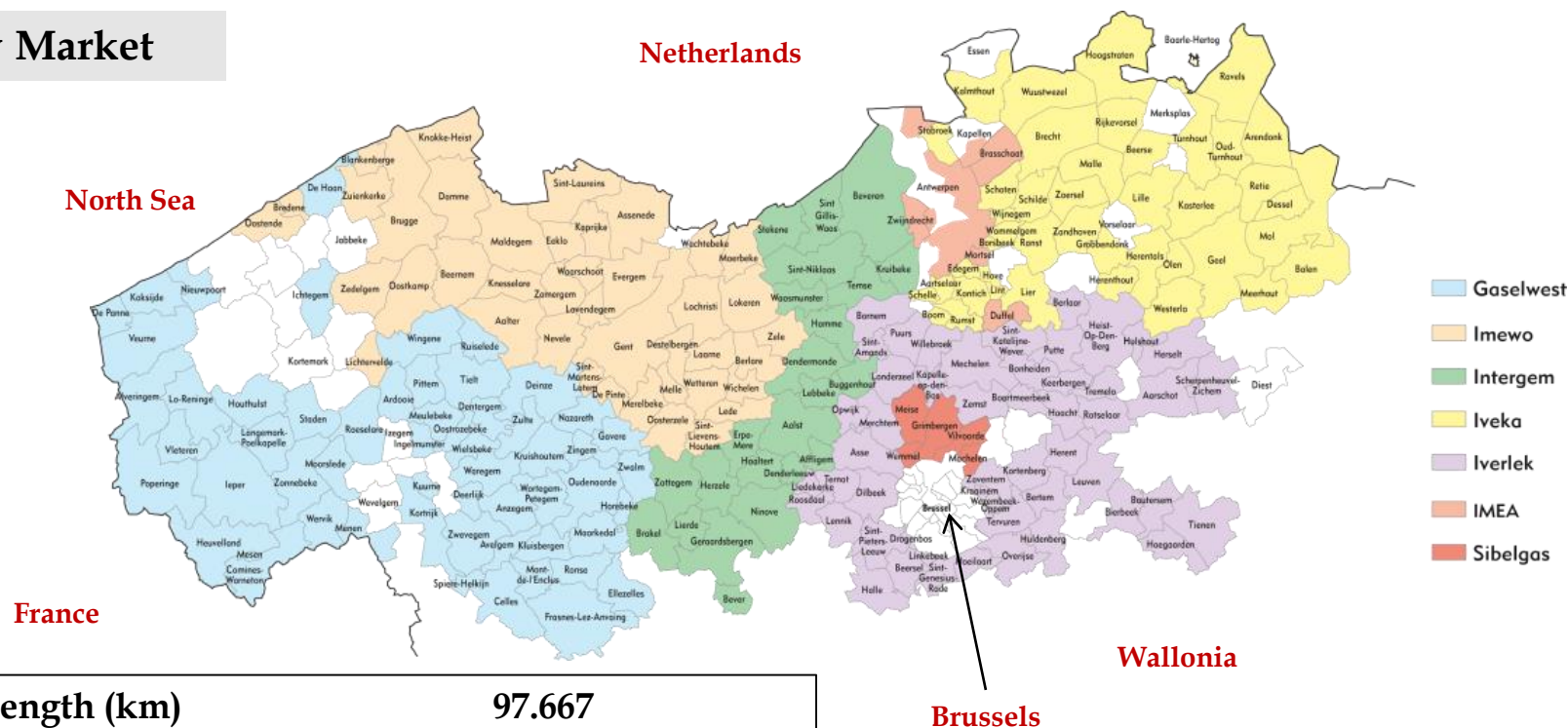
*\* also valid for the DSOs of the Infrax group*

# Business Overview

## Eandis System Operator's network

Eandis serves 77,8% of Flemish connections

### Electricity Market



Total network length (km)	97.667
low voltage	62.873
mid voltage	34.794
Access points	2.664.391
Budget meters in operation	32.819
Public lighting points	849,092
Volume transported (TWh)	25,7

(\*) All figures as per 31 December 2016 - Source : Eandis Annual Report 2016



# Business Overview

## Eandis System Operator's network

Eandis serves 83,2% of Flemish connections

### Gas Market



Total network length (km)	42.837
low pressure	34.865
mid pressure	7.972
Access points	1.773,585
Budget meters in operation	23.930
Volume transported (TWh)	53,7

(\*) All figures as per 31 December 2016 - Source : Eandis Annual Report 2016

## 4. Belgian Energy Market & Regulatory Framework

- Regulatory Framework: Purpose & Organisation
- Distribution Grid Tarification

# Regulatory Framework

## 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  $\leq 70$ kV)
  - 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 (as from 1 July 2014)

## Regulatory Framework

### Towards a Flemish Distribution Grid Tarification

The coalition agreement for the Flemish government (2014-2019) stipulates the following elements with regard to distribution grid tariffs in the Flemish region:

- 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**
- **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

*→ still to be confirmed in formally approved tariff guidelines*

## Regulatory Framework

### Distribution Grid Tarification

- **1 July 2014:** formal date of competency transfer
  - VREG replaces CREG as competent tariff-setting regulator for DSOs in the Flemish Region
  - VREG appointed as regulator by Flemish Decree of 14 March 2014
- **30 September 2014:** VREG published tariff methodology for 2015/2016
- **1 January 2015:** start of transitory 2-year tariff period 2015-2016
- **25 August 2016:** VREG published tariff methodology for 2017-2020
- **1 January 2017:** start of regular 4-year tariff period 2017-2020

## Regulatory Framework

### Distribution Grid Tarification 2017-2020

- 20 December 2016: VREG approved the 2017 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'):

$$AI_n = AI_{n-1} * [1 + CPI - x + q] \text{ in which}$$

- AI = allowed income
  - x = efficiency factor (*not yet implemented*)
- 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)



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<http://www.eandis.be/eandis/investor-relations-en.htm>

## Annexes



# Company Overview

Organizational Structure: Management Committee (as from 1 Jan 2015)



**Walter  
VAN DEN BOSSCHE, CEO**  
*Chairman Management  
Committee*



**Guy COSYNS**  
*Customer  
Operations*



**Wim DEN ROOVER**  
*Network Operations*



**Jean Pierre  
HOLLEVOET**  
*Network  
Management*



**David TERMONT,**  
**CFO**  
*Finance & ICT*



**Donald  
VANBEVEREN**  
*Regulation &  
Strategy*



**Werner  
VERLINDEN**  
*HR &  
Organisational  
Management*

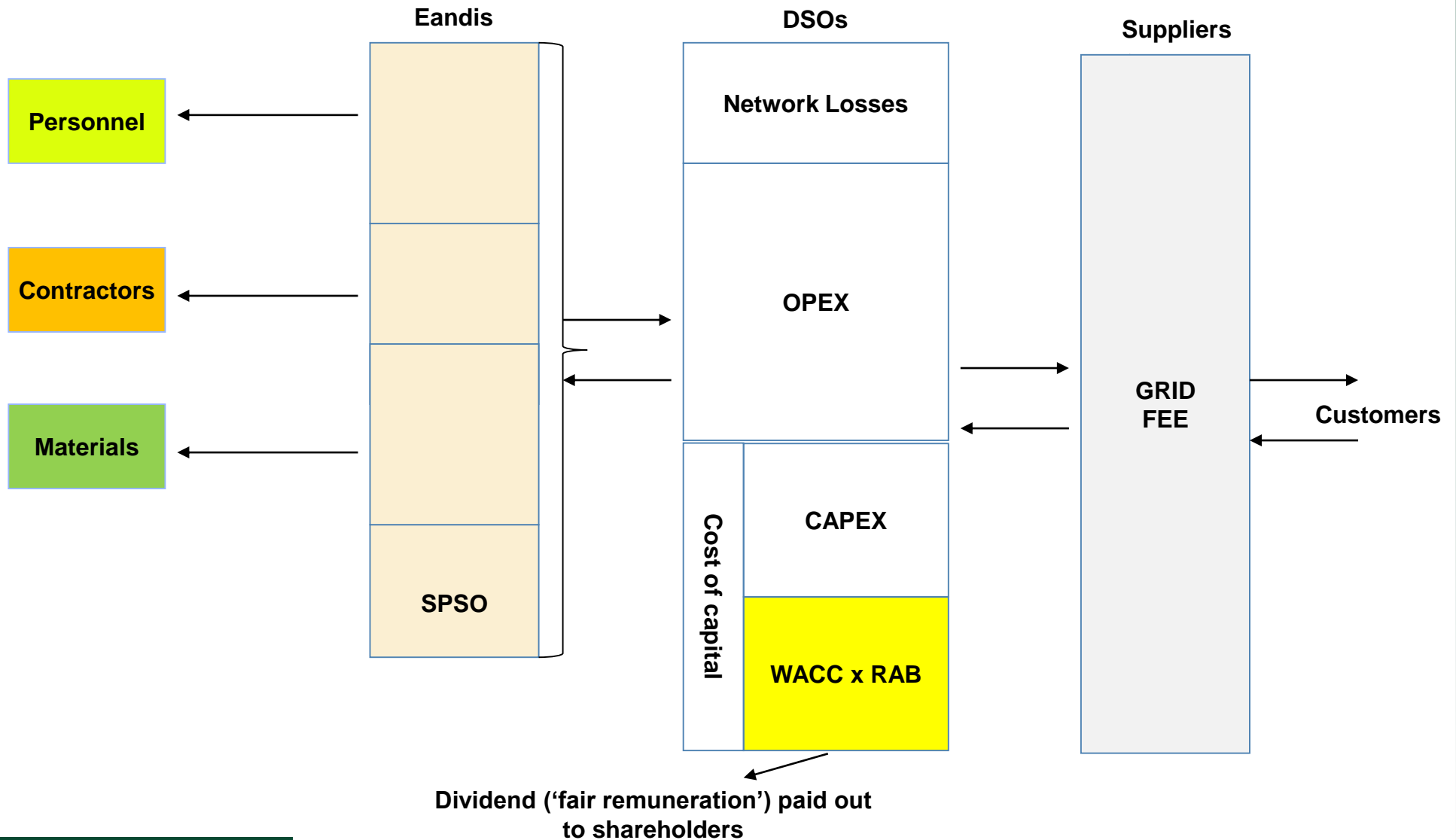
# Company Overview

## Corporate Structure: DSOs vs Eandis System Operator



# Regulatory Framework

## Cash Cycle



## Company Overview

### Intermunicipalities and DSOs

#### Intermunicipalities - Overview

- **In Belgium, municipalities are in charge** of the provision of several public services covering, among others, 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**. All items not explicitly covered by this decree are covered by the corporate rules for a “cooperative company” (“cvba”)

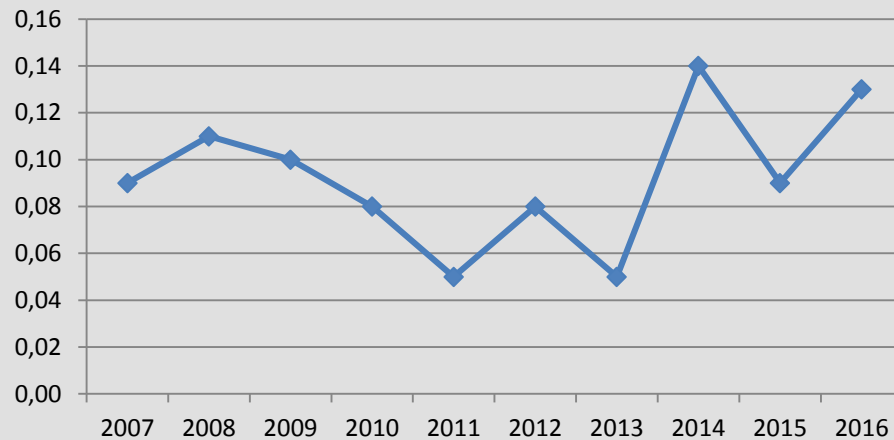
#### DSOs - Overview

- 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 an environment driven by 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 monopolistic position** for the area covered by its network
- Each intermunicipal DSO owns **its proper grid infrastructure**
- Each intermunicipal DSO is appointed by the regional 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 renewed in 2015

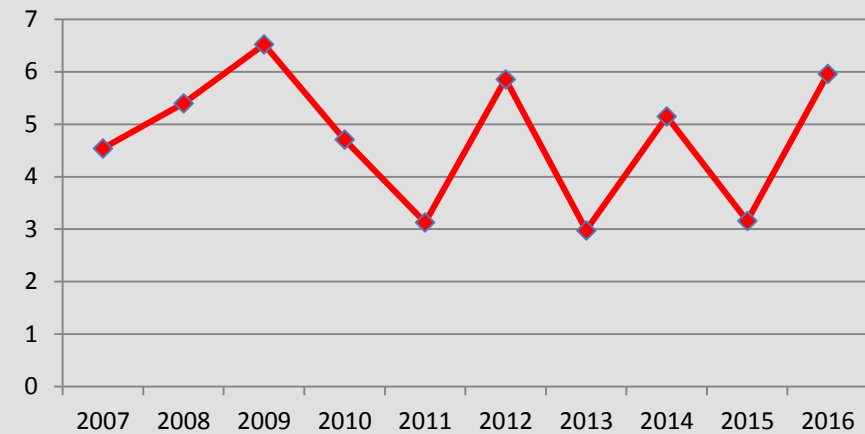
# Eandis System Operator: safety & reliability

## Industrial accidents (2007-2016) / electricity outages (2010-2016)

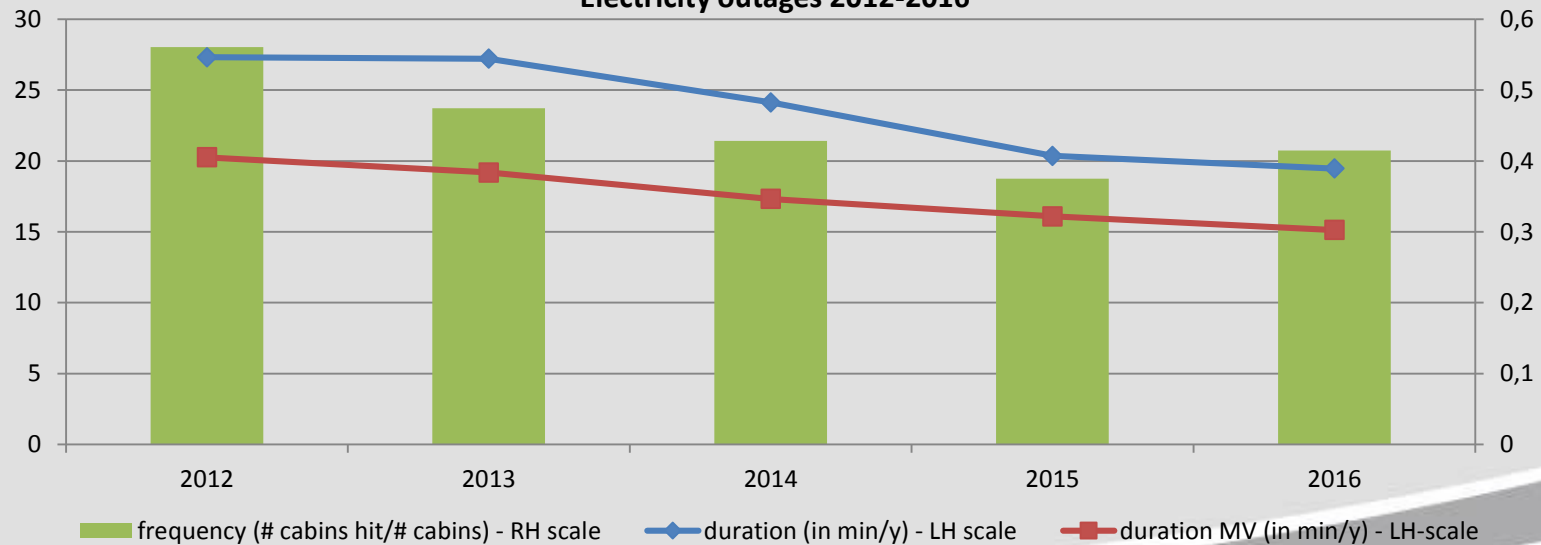
### Gravity Index (Eg)



### Frequency Index (Fg)



### Electricity outages 2012-2016



Source: Eandis figures

Eg= # days lost due to industrial accidents x 1000/# hours worked / Fg= # industrial accidents resulting in days lost x 1000000/# hours worked

## Eandis System Operator's subsidiary: De Stroomlijn cvba



- Activity: call centre for distribution network related issues
- Shareholders: Eandis 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: 262 <sup>(1)</sup> on 3 sites (Mechelen, Ghent and Ypres)
- Works at **cost price** (no margin/profit) for its shareholders
- Consolidated according to the integral method
- Financials 2016 (BE-GAAP)
  - Balance sheet total: € 4.082.129
  - Share capital: € 257.700
  - Debt: € 3.824.429 (of which € 3.634.298 < 1 year / no LT debt)
  - Turnover: € 13.353.470

(1) As per end 2016



## Eandis System Operator's subsidiary: Atrias cvba

- Shareholders: all Belgian distribution grid operators  
Eandis System Operator: 25% of share capital
- Board: 12 members (of which 3 for Eandis, incl. Chairman Walter Van den Bossche)
- Staff: 20 (31 December 2016)
- Established: 9 May 2011
- Operates on a federal scale (the whole of Belgium) for reasons of economies of scale
- Atrias has developed MIG-6 (Message Implementation Guide, smart-ready) and is charged with the development of a clearing house application (start: September 2018)
- Works at **cost price** (no margin/profit) for its shareholders
- Consolidated in Eandis according to the equity method
- Financials 2016 (BE-GAAP)
  - Balance sheet total: € 36.951.897
  - Share capital: € 18.600
  - Debt: € 36.933.297 (of which € 36.904.922 < 1 year / no LT debt)
  - Turnover: € 13.810.446

## Eandis System Operator's subsidiary: Synductis cvba

- Date of establishment: 21 December 2012
- Shareholders: Eandis System Operator (33,33%), Farys (44,95%), Proximus (16,67%), IWVA (2,26%) and IWVB (2,79%) – Pidpa, Infrax and De Watergroep are participating for coordination activities (B shares) – still open for other utilities
- Board: 5 members (of which 2 for Eandis, incl. Chairman Geert Versnick)
- 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 2016 (BE-GAAP)
  - Balance sheet total: € 715.862
  - Share capital: € 19.400
  - Debt: € 696.462 (all debt < 1 year / no LT debt)
  - Turnover: € 1.955.019



## Eandis System Operator's subsidiary: Warmte@Vlaanderen cvba



- Date of establishment: 18 May 2016
- Shareholders: Eandis System Operator (50%), Infrax (50%), Walter Van den Bossche (CEO ESO – 1 share) and Frank Vanbrabant (CEO Infrax – 1 share)
- Board: 10 members (of which 5 for Eandis, incl. Chairman Koen Kennis)
- Warmte@Vlaanderen will (i) detect, design, develop, build and maintain infrastructure for district heating and geothermal energy, (ii) generate heat and (iii) transport, distribute, supply, measure and invoice heat
- Operations will start after positive appraisal by Belgian competition authorities
- First fiscal year runs until 31 December 2017 - not yet consolidated
- Financials (BE-GAAP)
  - Share capital: € 18.600

## Eandis System Operator's subsidiary: Fluvius cvba



- Date of establishment: 27 December 2016
- Shareholders: Eandis System Operator (50%), Infrax (50%), Piet Buyse (Chairman ESO Board – 1 share) and Wim Dries (Chairman Infrax Board – 1 share)
- Board: 10 members
- Fluvius will (i) in general, organise activities and developments in support of its shareholders (both operating companies) in the field of energy distribution management and, additionally, cable TV, sewerage and district heating, and (ii) more particularly, be responsible for the end-to-end smart meter chain, on behalf of both Eandis System Operator and Infrax
- First fiscal year runs until 31 December 2017 - not yet consolidated
- Financials (BE-GAAP)
  - Share capital: € 18.600

# Regulatory Framework

## Public Services Obligations: socio-economic, technical, ecological

- **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
- **SPSO** (Social Public Service Obligations, 'SODV' in Dutch)
  - Goal : to ensure **minimum and continuous supply of electricity and gas** to any household 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 (2016-2020), as part of the Clean Power for Transport policy
- **global service obligations**
  - **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)

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