

Rating Action: Moody's assigns (P) A3 rating to Fluvius's new guaranteed EMTN programme, negative outlook

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Paris, November 18, 2020 -- Moody's Investors Service, ("Moody's") has today assigned a provisional (P)A3 backed senior unsecured rating to Fluvius System Operator CV (Fluvius)'s new guaranteed EMTN programme, the outlook is negative.

RATINGS RATIONALE

The provisional (P)A3 rating of the new programme is aligned with the A3 backed long-term issuer rating of Fluvius, recognising that notes issued under the programme will be senior unsecured obligations of Fluvius.

Fluvius's A3 ratings continue to reflect the robust credit quality of the distribution system operators (DSOs) which currently own the company and severally guarantee its liabilities. This is underpinned by the low business risk of their regulated electricity and gas distribution network operations in Flanders, Belgium. We view the regulatory framework as transparent and generally supportive 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.

Following the merger of Eandis and Infrac, ex-Eandis bonds continue to be guaranteed by its original owners, the DSOs Gaselwest, Imewo, Intergem, Iveka, Iverlek, Sibelgas and Fluvius Antwerpen (the later a result of the merger of IMEA, Integan and Iveg). No further bond issues will be made under the ex-Eandis EMTN programme and all future bond emissions will be made under the new Fluvius EMTN programme. The new programme will be guaranteed by all of Fluvius's eleven shareholders, severally but not jointly, and pro rata to their shareholding.

Fluvius's A3 rating incorporates a two-notch uplift for potential state support from its standalone credit quality (baseline credit assessment) of baa2. This is based on Moody's assessment of high dependence between Fluvius and its owners, all 300 municipalities within the Community of Flanders (Aa2 stable), and a strong likelihood of Fluvius receiving support in the event this were needed to avoid a debt payment default.

RATING OUTLOOK

The outlook is negative, reflecting Moody's expectation that, absent mitigating measures, cash-flow based financial metrics may fall below the guidance for the current rating i.e., funds from operations (FFO) / net debt may fall below 8%, in the next regulatory period starting 2021.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

A rating upgrade is unlikely in the near term given the expected decrease in earnings in the next regulatory period starting in 2021. However, the outlook could be changed to stable if the company was able to maintain FFO / net debt of at least 8% and Net debt / Fixed assets less revaluation surpluses were to remain below 80%. This could arise from (1) mitigating the increase in leverage via a change in its dividend policy, or (2) getting significant support from the advances mechanism introduced in the regulatory determination for the period 2021-24 so that cash-flows are maintained. Downward rating pressure could arise if metrics for the Fluvius Economic Group appeared unlikely to meet the requirements for the current ratings, namely FFO / Net Debt was to fall below 8% or Net Debt / Fixed Assets less revaluation surpluses was to be above 80%. The ratings may also come under downward pressure if Moody's assessed a lower probability of support from the Community of Flanders or if the rating of the sub-sovereign was downgraded.

Fluvius System Operator CV (ex Eandis System Operator CVBA) is a Belgian utility established in March 2006, which provides the regulated activities of operating the electricity and gas distribution networks in the Community of Flanders, Belgium. Fluvius was formed through the merger of Eandis and Infrac CVBA in July 2018 and is 100% owned by the municipalities of the Community of Flanders. Fluvius, together with its eleven DSO shareholders form the Fluvius Economic Group which derives around 90% of its operating profit from the regulated energy distribution activities, with the remaining 10% derived predominantly from regulated

sewerage and contract-based CATV network operations. The group also holds small district heating infrastructure in selected areas.

The methodologies used in these ratings were Regulated Electric and Gas Networks published in March 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1059225 , and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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