

Rating object	Rating information	
<p>Long-Term Local Currency Senior Unsecured Issues</p> <p>Type of issues: Long-term local currency senior unsecured issues Home Markets: Luxembourg Stock Exchange, Euronext Brussels Issuer: Elia System Operator S.A./N.V.</p>	<p>Corporate Issuer rating: A/stable</p> <p>LT Senior Unsecured Issues, LC: A</p> <p>Rating Date: 8 August 2018 Monitoring until: withdrawal of the rating Publication Date: 16 August 2018 Rating methodology: CRA „Corporate issue ratings“ Rating history: www.creditreform-rating.de</p>	<p>Type: Initial rating Unsolicited</p> <p>Other: n.r.</p>

Content

Transaction summary	1
Issue rating details	1
Appendix.....	4

Transaction summary

Object of this rating are the long-term (“LT”) local currency (“LC”) senior unsecured issues (“bonds”, “Notes”), issued by Elia System Operator S.A./N.V. (“Elia”), the parent company of the Elia Group. The bonds have been issued either within the framework of a separate bond issuance (Series B Bonds - prospectus dated 7 May 2004) or within the framework of a Euro Medium Term Note Programme (“EMTN Programme”) (last prospectus dated 9 May 2017). The issues are unsecured and the Notes under the EMTN Programme are issued in Series from time to time with different interest payments and maturities. The issues proceeds serve to fund the general corporate purposes of the Issuer.

The rating of **A** represents a good credit quality and a low investment risk.

In accordance with CRA methods, this unsolicited corporate issue rating is derived from Elia’s unsolicited corporate issuer rating, which was first prepared on 7 October 2016 (initial rating). Since that date, the rating has been subject to an ongoing monitoring. There have been no changes in our rating assessment so far. Information about the current Corporate Issuer Rating of Elia and its relevant rating report are available on the website of Creditreform Rating AG.

Issue rating details

Issuer

Elia Group is a leading transmission system operator in Europe, active in Belgium through TSO Elia Transmission and in Germany through its subsidiary Eurogrid International CVBA/SCRL („Eurogrid“), the parent company of German TSO 50 Hertz Transmission GmbH. In 2017, the Group employed approx. 2,343 people and operated 18,600 km of high-voltage connections, supplying 30 million end users. Elia is listed on the Brussels stock exchange (Euronext Brussels: ELI).

With revenues amounting to EUR 887.5 million in 2017 (previous year: EUR 868.1 million), the company achieved a normalized net profit of EUR 216.6 million in 2017 (2016: EUR 168.0 million), generated at 50% by the German segment of the Group and its associates. Consolidated EBIT grew by 21.7% to EUR 344.6 million. In 2017, the company invested approx. EUR 486 million in Belgium and EUR 461 million in Germany, mainly financed by cash flow from operating activities, proceeds from the sale of green certificates as well as a Eurobond issue.

Analysts

Marie Watelet
 Lead Analyst
 m.watelet@creditreform-rating.de

Rudger van Mook
 Co-Analyst
 r.vanmook@creditreform-rating.de

Neuss, Germany

In the consolidated accounts of Elia as of 31 December 2017, the results of Eurogrid were consolidated using the equity method. In April 2018, Elia acquired an additional 20% stake in Eurogrid and has now the full control of the company. Therefore, Eurogrid and its subsidiaries can fully be consolidated into Elia Group's results. This acquisition has been financed with a bridge loan of EUR 968.1 million, which should be replaced by bond issues in the second half of 2018 (EUR 700 million hybrid bond and EUR 300 million senior debt).

We expect a positive business development of Elia Group in 2018, notably following the good results in first half-year (revenues +48.7%; net profit +38.6%), mainly due to the fact that Elia now holds a 80% share in Eurogrid. Nevertheless, the positive effects of the consolidation may not offset the increase in leverage due to the acquisition. As of 30 June 2018, net debt increased by EUR 2,126.8 million mainly due to the consolidation of Eurogrid's debts and to the bridge financing, which could lead to a possible deterioration of some key financials of Elia Group in the future. Nevertheless, the need of compliance with some financial covenants as well as the regulatory rules in terms of ratio debt/capital should limit the negative impact of the debt level increase.

Table 1: Financials of the Issuer | Source: Elia System Operator S.A./N.V. (Group) annual report 2017, standardized by CRA

Financial ratios' extract Basis: adjusted consolidated annual statement per 31.12. (IFRS)	Standardized balance sheet	
	2016	2017
Revenues	EUR 868.1 m	EUR 887.5 m
EBITDA incl. share of profit of equity-accounted investees (net of tax)	EUR 419.8 m	EUR 475.9 m
EBIT incl. share of profit of equity-accounted investees (net of tax)	EUR 295.0 m	EUR 344.6 m
EBIT	EUR 216.6 m	EUR 235.9 m
EAT	EUR 180.0 m	EUR 229.1 m
Normalized EAT	EUR 168.0 m	EUR 216.6 m
Total assets	EUR 5,366.1 m	EUR 5,711.8 m
Equity ratio adj. (after the deduction of 50% of the goodwill)	31.0%	33.2%
Capital lock-up period	131.4 days	97.3 days
Short-term capital lock-up	31.2%	25.2%
Net debt / EBITDA adj.	8.1x	7.5x
Ratio of interest expenses to debt	4.9%	2.2%
Return on investment	6.3%	5.4%

Regarding the business development and outlook of the Issuer, we refer to the report on the unsolicited corporate rating of Elia System Operator S.A./N.V. (Group) as of 7 October 2016 (A/stable) and the information published by Elia since then and, among other things, to the 2017 annual and half-year 2018 reports of the Group. In general, the development of Elia in the future will primarily depend on the regulatory framework and the regulated tariffs. The company faces specific structural risks, business risks and financial risks that are described in detail in the rating report. The report can be found on the website of CRA. As mentioned above, the rating is monitored on an ongoing basis.

Rating object

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in EUR, issued by Elia System Operator S.A./N.V. The bonds have been issued either within the framework of a separate bond issuance (Series B Bonds of prospectus dated 7 May 2004) or within the framework of an Euro Medium Term Note Programme, of which the latest prospectus dates 9 May 2017. The current 2017-EMTN Programme amounts to maximum EUR 5 bn.

The here rated bonds as well as the Notes issued under the EMTN Programme benefit from a negative pledge provision as well as a cross-default mechanism.

Rating result

We assign a rating of A to the long-term local currency senior unsecured debt securities issued by Elia. The decision is derived from the Issuer corporate rating and its outlook, taking into account some specifics of the issuances.

The following tables gives overviews of the ratings attributed by CRA as well as of the current EMTN Programme.

Table 2: Summary of CRA ratings | Source: CRA

Rating Category	Detail Information	
	Date	Rating
Elia System Operator S.A./N.V.	07.10.2016	A/stable
Long-term LC senior unsecured issues	08.08.2018	A
Other	--	n.r.

Table 3: Overview of 2017 Euro Medium Term Note Programme | Source: Elia, prospectus dated 9. May 2017

Overview 2017 EMTN-Programme			
Programme Volume	EUR 5,000,000,000	Maturity	Depending on the respective Notes
Issuer	Elia System Operator SA/NV	Coupon	Depending on the respective Notes
Arranger	Deutsche Bank AG	Currency	Depending on the respective Notes
Credit Enhancement	--	ISIN	Depending on the respective Notes

At the time of the rating, the following EUR-bonds and Notes are rated by Creditreform Rating AG:

Table 4: Rated issued | Source: CRA unsolicited ratings of Elia's Long-term LC senior unsecured Issues as of 30 July 2018

ISIN	EUR	Issue date	Maturity	Unsolicited Rating
BE0002432079	550,000,000	04.04.2013	04.04.2028	A
BE0002466416	350,000,000	07.04.2014	07.04.2029	A
BE0002239086	500,000,000	27.11.2015	27.05.2024	A
BE0002276450	250,000,000	07.04.2017	07.04.2027	A
BE0002433085	200,000,000	04.04.2013	04.04.2033	A
BE0119550466	500,000,000	13.05.2004	13.05.2019	A

All future LT LC senior unsecured Notes that will be issued by Elia under the current EMTN Programme, denominated in euro will, until further notice, receive the same ratings than the current LT LC senior unsecured issues under the EMTN Programme. Other types of debt, e.g. the Commercial Paper Programme of Elia, have not been assessed at the time of the preparation of the rating. The current ratings and information can be seen on the website of Creditreform Rating AG.

Best-case scenario

Best-case scenario: A
Worst-case scenario: A-

In our best-case scenario for one year, we assume a rating of A. As the rating of the debt securities is linked to the rating of the Issuer, we refer to the report on the unsolicited corporate issuer rating of Elia System Operator S.A./N.V. (Group) as of 7 October 2016 (A/stable).

Worst-case scenario

In our worst-case scenario for one year, we assume a rating of A-. As the rating of the debt securities is linked to the rating of the Issuer, we refer to the report on the unsolicited corporate issuer rating of Elia System Operator S.A./N.V. (Group) as of 7 October 2016 (A/stable).

Note:

The scenarios are based on the information available at the time of the rating. Within the forecast horizon, some circumstances could occur that would lead to a rating change out of the indicated range.

Appendix

Rating history

Table 5: Corporate Issuer Elia System Operator S.A./N.V. | Source: CRA

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	07.10.2016	14.10.2016	Withdrawal of the rating	A/stable
Monitoring	18.10.2017	20.10.2017	Withdrawal of the rating	A/stable

Table 6: LT LC senior unsecured issues issued by Elia System Operator S.A./N.V. | Source: CRA

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	08.08.2018	16.08.2018	Withdrawal of the rating	A

Regulatory and legal disclosures

The present rating is an unsolicited rating. Creditreform Rating AG was not commissioned by the Issuer with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The quantitative analysis is primarily based on the last annual report of the Issuer, the basis prospectuses and on press releases of the company. The information and documents meet the requirements and are in accordance with the published Creditreform Rating AG's rating methodology.

The rating was conducted on the basis of Creditreform Rating's "Corporate Issue Ratings" methodology and the "Corporate Issuer Rating" methodology. A complete description of Creditreform Rating's rating methodologies is published on the following internet page: www.creditreform-rating.de.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodology. A complete description of Creditreform Rating's rating methodologies and Creditreform's basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Marie Watelet (m.watelet@creditreform-rating.de) and Rüdger van Mook (r.vanmook@creditreform-rating.de), both located in Neuss, Germany. A management meeting did not take place.

The rating was presented to the rating committee on 8 August 2018. The company examined the rating report prior to publication and was given at least one full working day to appeal the rating committee's decision and to provide additional information. The rating decision was not amended following this examination.

The rating will be monitored until CRA removes the rating and sets it to non-rated (n.r.).

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Please note:

This report exists in an English version only. This is the only binding version.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

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To prepare this credit rating, CRA has used following substantially material sources:

Corporate Issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate Issue rating:

1. Issuer corporate rating incl. information used for the Issuer corporate rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore, CRA considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

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In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the 'Basic Data'

card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within ‘Basic Data’ information card.

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Creditreform Rating AG

Contacts

Creditreform Rating AG
Hellersbergstraße 11
D-41460 Neuss
Germany

Phone +49 (0) 2131 / 109-626

Fax +49 (0) 2131 / 109-627

E-mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Prof. Dr. Helmut Rödl
HR Neuss B 10522