4 October 2023 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has affirmed the unsolicited corporate issuer rating of Fluvius System Operator CV at A / Stable

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Creditreform Rating (CRA) has affirmed the unsolicited, public corporate issuer rating of Fluvius System Operator CV (hereafter referred to as "the Company", "Fluvius" or "FSO")[1], as well as the unsolicited corporate issue rating of its long-term local currency senior unsecured notes at A. The initial unsolicited short-term rating was set to L2 (High level of liquidity). Additionally, CRA has maintained the stable outlook on the above rating objects.

Fluvius is the Belgian operating entity of eleven Flemish intermunicipal infrastructure companies[2] (qualified as mission entrusted associations (MEA's) and governed by the Flemish Intermunicipal Cooperation Decree), which have regulated operations in the electricity, gas distribution and sewerage, and operates distribution networks in the cable TV business sector through a joint venture with Telenet (Fluvius' capital share is 33.2%). The Company was founded on 1 July 2018 through the merger of the former operating companies Eandis System Operator CVBA and Infrax CVBA. Fluvius employed 5,695 people and had a regulatory asset base (RAB) of EUR 10.6 billion as of the end of 2022. In the full year 2022, Fluvius reached net revenues of EUR 2,400.4 million (2021: EUR 3,038.3 million) and reported operating profit of EUR 424.1 million (2021: EUR 445.0 million).

Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- Operating profit weakened in 2022 and more markedly in the first half 2023 due to lower tariffs as ruled by VREG and increased operating costs
- Electricity and gas consumption is expected to fall in 2023, driven by economic slowdown in Europe and reduced consumer spending
- Continued high investment needs to boost Flanders' energy transition, with upward pressure on indebtedness
- Active management of financial liabilities supports the Company's financial profile, albeit at a higher debt cost
- Additional initiatives have been implemented to improve ESG profile

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[1] Fluvius System Operator cv and its consolidated subsidiaries: De Stroomlijn CV, Atrias cv, Synductis CV and Wyre Holding.

[2] Gaselwest, Imewo, Intergem, Iveka, Iverlek, Sibelgas, Infrax West, PBE, Riobra, Fluvius-Limburg, and Fluvius-Antwerpen. In December 2022, Fluvius approved a restructuring in the shareholding structure, which will take effect on 1st January 2025.

ESG-criteria:

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "Regulatory requirements". CRA generally takes ESG relevant factors into account, when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of Fluvius System Operator CV we have not identified any ESG factors with significant influence.

In our view, distribution network operators still face moderate environmental risks. However, worsening climate change has been exposing companies in this sector to increasingly intense natural events with the potential to damage energy infrastructure assets, as evidenced in the unprecedented flood that occurred in parts of Germany and Belgium in July 2021 and which severely affected a number of energy facilities in the region. An additional environmental risk for this sector is gas leakage along the distribution pipelines, which could release a large amount of methane gas into the atmosphere, adding to global warming, jeopardizing individuals' health, and ultimately causing gas explosion accidents.

The transition to renewable energy will require a major restructuring of the sector, thereby increasing overall industry risk during the expansion of the grid networks and implementation of new technologies. Complexity of the grid networks will increase as new wind and solar power generation capacity is installed, with the energy system shifting from large-scale and centralized power plant generation to smaller-sized and more widely distributed energy facilities that are located closer to points of consumption. Another challenge to be addressed during this transition is the intermittent generation of wind and solar energy, since it cannot be easily stored and transported, and the stability of energy distribution can vary significantly according to the climate characteristics of each geographic region. All of this will require grid operators to raise investments significantly over the next few years, with the objective of not only expanding their network infrastructure, but also increasing digitization of operations and energy efficiency through new technologies.

Despite the expected challenging environment for the sector in the years ahead, we recognize a credible strategy pursued by Fluvius in order to manage these risks and increase the share of renewable energy in its grid networks. Fluvius' investment plans are entirely aligned with the climate objectives of Flemish municipalities and Flemish Region (Flemish Energy & Climate Plan), including projects to make buildings more energy-efficient, to develop smart grids (digital meters), switch to LED public lighting, expand and renew sewerage grids, to facilitate e-mobility and to increase connections to renewable energy generation. In order to align its financial policy with its sustainability strategy, Fluvius has developed a Green Financing Framework, under which financing instruments issued are linked to the environmental objectives defined in the EU taxonomy.

We also acknowledge the Company's good practices regarding social and governance issues. A portion of the variable remuneration of executives is dependent on social goals regarding employees' health and safety. The Company has also approved the Ethics Charter with principles of integrity and ethics that are to guide the conducts and decisions taken within Fluvius, and has created an effective Ethics Group to which employees can report any misconduct or infringement of this Charter. Additionally, Fluvius' board of directors and management team are strictly separated, with the audit committee reporting directly to the board of directors. On the other hand, it should also be viewed critically that none of its 19 board of directors' members are independent according to article 7:87 of the Companies Associations Code and Fluvius' disclosure of non-financial information is still evolving. While ESG disclosure is prepared using GRI standards, we see further possibilities for increasing transparency, especially in the environmental area.

Please note:

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

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Rating result

With the present rating of A, Fluvius System Operator CV continues to have a high level of creditworthiness and lower risk of default. The rating is based mainly on relatively stable earnings and cash flow generation, along with a low business risk profile, a supportive regulatory framework in its main business areas and by the strategic importance of the Group for the region of Flanders (Belgium). On the other side, the ratings face downward pressure from the capital-intensive nature of its activities and investment needs to foster energy transition, which will likely result in higher debt levels in the forthcoming years.

As the MEA's that own FSO are wholly-owned by Flemish municipalities and given the significant importance of Fluvius' operations for the Flemish region, we assume a high probability that the local authorities would provide the Group with extraordinary support in the event of financial difficulties. This factor has a positive impact on the rating result according to our sub-methodology "government-related entities". Any change in Belgium's sovereign rating (CRA rating AA / negative as of 19 May 2023) could therefore also have an impact on FSO's corporate issuer rating.

Outlook

The one-year rating outlook is stable based on our view that the more restrictive regulatory framework for the 2021-2024 period has been to a certain extent compensated by numerous countermeasures taken by the Company and by interim adjustments in the tariff methodology, which resulted in a modest operational weakening and preserved operating cash flow generation during 2022. The downward trend on Fluvius' operating earnings during the current regulatory period is already incorporated in the A rating level and, based on the Company's conservative financial planning over time and on the continuous support from public authorities in Flanders, we consider it unlikely that credit metrics will deteriorate more than previously estimated levels.

Best-case scenario: A

In our best-case scenario for one year, we assume a rating of A. The prospect for an upgrade in the one-year period is currently low due to the expected decline in the Group's earnings as a result of the adjusted tariff methodology 2021-2024 and the increase in investments, which will exacerbate negative free cash flow generation and exert moderate pressure on debt levels. We believe, however, that the weakening in the overall performance will be to a certain extent offset by the countermeasures adopted by the Company the likely support from public authorities in Flanders.

Worst-case scenario: A-

In our worst-case scenario for one year, we assume a rating of A-. In this scenario, we assume a sharper deterioration of the Group's operating earnings due to the lower allowed return in the new tariff methodology and worsening macroeconomic volatility, with inflation and interest rates remaining sustainably high over the current and the next regulatory periods. This, in combination with higher investment needs, might lead to a higher-than-anticipated deterioration of the financial metrics. Moreover, a downgrade of Belgium's sovereign rating could also prompt a downgrade in Fluvius' ratings.

Business development and outlook

Fluvius economic group achieved net revenues of EUR 2,400 million in 2022, falling significantly if compared to the previous year (2021: EUR 3,038 million), and reported operating income declined by 5% year-over-year (yoy) to EUR 424 million. This is the second sequential decline since 2020, with an accumulated fall of 22% until now, being largely explained by the more restrictive tariff methodology 2021-2024 ruled by VREG and by higher operating costs due to the prolonged inflationary environment. However, this decline is in line with our previous forecasts and has been partially mitigated by countermeasures adopted by the company and the regulator, including an interim update in the methodology, the start of capacity tariff in January 2023, which will increase efficiency and support costs savings, and reduction in dividend payments until the end of 2024. Although these measures do not fully offset the negative impact of the current tariff calculation, they should contribute to maintaining operating margins at around 10% by the end of 2024 (compared to 16% in 2020). In the first half 2023, revenues from contracts with customers declined by only 6% yoy, while reported operating profit faced a sharp drop of 45% yoy, which dragged down operating margins to 8.3%. We believe, however, that the Company will adjust operating and financial costs going forward to stabilize its key financial indicators in the years ahead.

Disruption on European energy markets and higher prices are accelerating the phase out of gas and restraining electricity consumption, with Fluvius' distributed volumes declining by 15% and 4% in 2022, respectively. According to the International Energy Agency (IEA), electricity demand is forecasted to fall by 3% in 2023, followed by a 3% drop in the previous year and reaching the lowest level in the last two decades. The weaker demand levels stems from the expected economic slowdown in Europe and due to the prolonged inflation that is weighing on end customers' energy consuming. In Belgium alone, electricity consumption fell by 7% in the first half of 2023.

Despite the anticipated downturn in the short-term, long-term fundamentals remain very positive for the electricity sector, and fast changing regulations and consuming patters will continue to drive a high amount of investments. Fluvius aims to invest an additional 4 billion in electricity distribution networks over the next decade based on the assumption that electric vehicles in Flanders will reach 1.5 million by 2030 coupled with a complete electrification of public buses and gradually more buildings heated with electric heat pumps. Against the background of the energy transition, the Company is intensifying the connection of its grids to renewable sources, with its distribution networks covering 7,913,145 kVA of decentralized power generation (solar, wind, biomass, etc.) – 14% more than in the previous year. The digital metering and public lighting projects are also important for the Company to comply with the Flemish Energy Decree, with respective capital requirements of EUR 2,379 million and EUR 926 million. This will considerably increase the company's capex over the next few years – to around EUR 8 billion during the 2023-2027 period, much higher than the EUR 4.1 billion over the last five years – and will exert upward pressure on the company's financings needs.

Fluvius' indebtedness has increased significantly over the last few years, which, coupled with weaker operating results, has led to a more leveraged capital structure. Accordingly, the Company's' financial debt has increased by EUR 1.3 billion since 2019, amounting to EUR 7.6 billion at the end of 2022 (EUR 8.2 billion as of June 2023), with CRA's adjusted Net Finance Debt/EBITDA increasing from 6.2 to 7.6 times in the period. Nevertheless, we assess Fluvius' balance sheet structure as adequate, with the maintenance of equity ratio above 40% historically, a relevant factor for the Company's high rating level. With regard to its liquidity profile, Fluvius maintains its policy of holding a minimum amount of cash holdings, but relies on a EUR 425 million fully available committed credit facility. The liquidity buffer is relatively low if put into perspective with the EUR 989 million short-term debt as of June 2023, but we do not believe the company will have any refinancing issues and will continue to be supported by the MEAs and ultimately by the region of Flanders. Higher investments coupled with deteriorating operating conditions could result in sequential negative free cash flow generation in the coming years, but we believe Fluvius will prudently adjust other outlays to preserve its financial profile.

Finally, we acknowledge the recent improvement in Fluvius' disclosure of non-financial information and ESG practices, as the Company initiated the auditing on a specific supplier through an independent research agency, a process that will likely happen more frequently in the future, it initiated recently with the disclosure of CO_2 emissions and will start measuring scope 3 from 2023 onwards. Moreover, the company also set a dedicated team that will coordinate the environmental impact of Fluvius' business activities and the appropriate initiatives to comply with the Flemish energy transition plan.

Table 1: Financials of Economic Group Fluvius I Source: Annual report 2022, standardized by CRA

Fluvius System Operator CV **Selected key figures of the financial statement analysis** **Basis: Annual accounts and report of 31.3. (IAS, Group)**	**CRA standardized figures[3]**	
	2021	**2022**
Sales (million EUR)	3,038.29	2,400.41
EBITDA (million EUR)	972.02	975.21
EBIT (million EUR)	444.96	424.09
EAT (million EUR)	301.95	345.75
EAT after transfer (million EUR)	301.95	345.75
Total assets (million EUR)	14,931.34	15,122.74
Equity ratio (%)	42.24	42.68
Capital lock-up period (days)	42.51	44.32
Short-term capital lock-up (%)	55.85	69.68
Net total debt / EBITDA adj. (factor)	8.25	8.61
Ratio of interest expenses to total debt (%)	1.96	1.89
Return on Investment (%)	2.72	2.79

[3] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

Table 2: Interim Financials of Economic Group Fluvius I Source: Half-Year Report 2023, reported information

Fluvius System Operator CV				
In million EUR	1H 2022	1H 2023	Δ	Δ %
Sales	1,256.13	1,185.92	-70.21	-5.6%
EBIT	248.02	136.16	-111.86	-45.1%
EBITDA	515.72	422.11	-93.61	-18.2%
EBT	229.89	40.66	-189.23	-82.3%
EAT	166.58	22.44	-144.14	-86.5%

Further ratings

Based on the long-term issuer rating and taking into account our liquidity analysis, the short-term rating of Fluvius System Operator CV was set at L2 (standard mapping), which corresponds to a high level of liquidity assessment for one year.

The rating objects of the issue rating are exclusively long-term senior unsecured issues, denominated in euro, issued by Fluvius System Operator CV, which are included in the list of ECB-eligible marketable assets. The eleven intermunicipal utility companies that form the Group's shareholding structure are guarantor of the issues that have been issued under the Euro Medium Term Note Programme (EMTN), with the last basis prospectus of 06.06.2023. We have provided the long-term local currency senior unsecured notes issued by Fluvius System Operator CV with an unsolicited rating of A / stable.

Long-term local currency senior unsecured notes issued by Fluvius System Operator CV, which have similar conditions to the current EMTN Programme, denominated in Euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN Programme. Notes issued in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Table 3: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date of rating committee	Rating
Fluvius System Operator CV	04.10.2023	A / stable / L2
Long-term Local Currency (LC) Senior Unsecured Issues	04.10.2023	A / stable / L2
Other	--	n.r.

Appendix

Rating history

The rating history is available under https://www.creditreform-rating.de/en/ratings/published-ratings.html.

Table 4: Corporate Issuer Rating of Fluvius System Operator CV (former Eandis System Operator cvba)

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	04.11.2016	11.11.2016	18.01.2017	A+ / stable

Table 5: LT LC Senior Unsecured Issues issued by Fluvius System Operator CV

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	05.10.2018	15.10.2018	26.07.2019	A+ / stable

Regulatory requirements

The rating[4] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

[4] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The rating was conducted based on the following information.

List of documents
Accounting and controlling
▪ Consolidated Financial Statements IFRS Economic Group Fluvius as of 31 December 2022 ▪ Fluvius System Operator Annual Report 2022 ▪ Interim Financial Statements: Half-Year Report as of 30 June 2023
Finance
▪ Fluvius System Operator CV EMTN Programme: prospectus dated 6 June 2023 ▪ Final terms of the outstanding notes
Additional documents
▪ Investor Presentation September 2023 ▪ News/Press releases ▪ Industry Reports (IEA) ▪ Fluvius Corporate Social Responsibility Charter

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Corporate Short-Term Ratings	1.0	June 2023
Government-related Companies	1.1	May 2023
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Sabrina Mascher de Lima	Lead-analyst	S.Mascher@creditreform-rating.de
Esra Höffgen	Analyst	E.Hoeffgen@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Philipp Beckmann	PAC	P.Beckmann@creditreform-rating.de

On 4 October 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 4 October 2023. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

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

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Conflict of interests

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.

Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses in the final rating reports any ancillary services provided for the rated entity or any related third party. In this case, no ancillary services in the regulatory sense were carried out for this rating object.

For the complete list of provided rating and credit service ancillaries please refer to the Creditreform Rating AG's website: https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html#non-core-business-activities .

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer 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 Creditreform Rating AG website. Furthermore, Creditreform Rating AG 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.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

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 Information 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 the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG’s default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

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