

Rating rationale

Rating as of 12 July 2016	
Issue rating:	BBB+
Outlook:	Stable
Issuer / rating basis:	
<p>The issuer of the Fixed Rate Secured Notes is Solar Chest S.A. ("Solar Chest"), a Belgian company wholly owned by municipal and provincial governments in the Walloon Region. The issue date is 30 June 2015. The bond was issued to finance the acquisition of 4,138,462 green certificates at the legally guaranteed minimum price of € 65 (excluding VAT) from Elia System Operator S.A./N.V. ("Elia").</p> <p>We gave Elia an issuer rating of A- in this connection on 12 July 2016.</p> <p>Amount: € 275 million</p>	
Maturing:	
<ul style="list-style-type: none"> ■ 1st tranche € 75.0 mm: 06/2020 ■ 2nd tranche € 100.0 mm: 06/2021 ■ 3rd tranche € 100.0 mm: 06/2022 	
Repayment: Fixed rate	
Undertakings:	
<ul style="list-style-type: none"> ■ Elia has a legally guaranteed minimum repurchase obligation ■ Public service levies on electricity rates cover purchases of green certificates as well as transaction, operating and interest costs charged to Elia ■ Bank accounts, receivables, certificates and securities pledged to bondholders and other secured creditors ■ Cash reserve of € 2.5 million ■ Commitment of Elia to grant advance payments as required 	
Termination rights:	
<ul style="list-style-type: none"> ■ Elia and Solar Chest bankruptcies ■ Cross acceleration ■ Other extraordinary termination rights for default 	

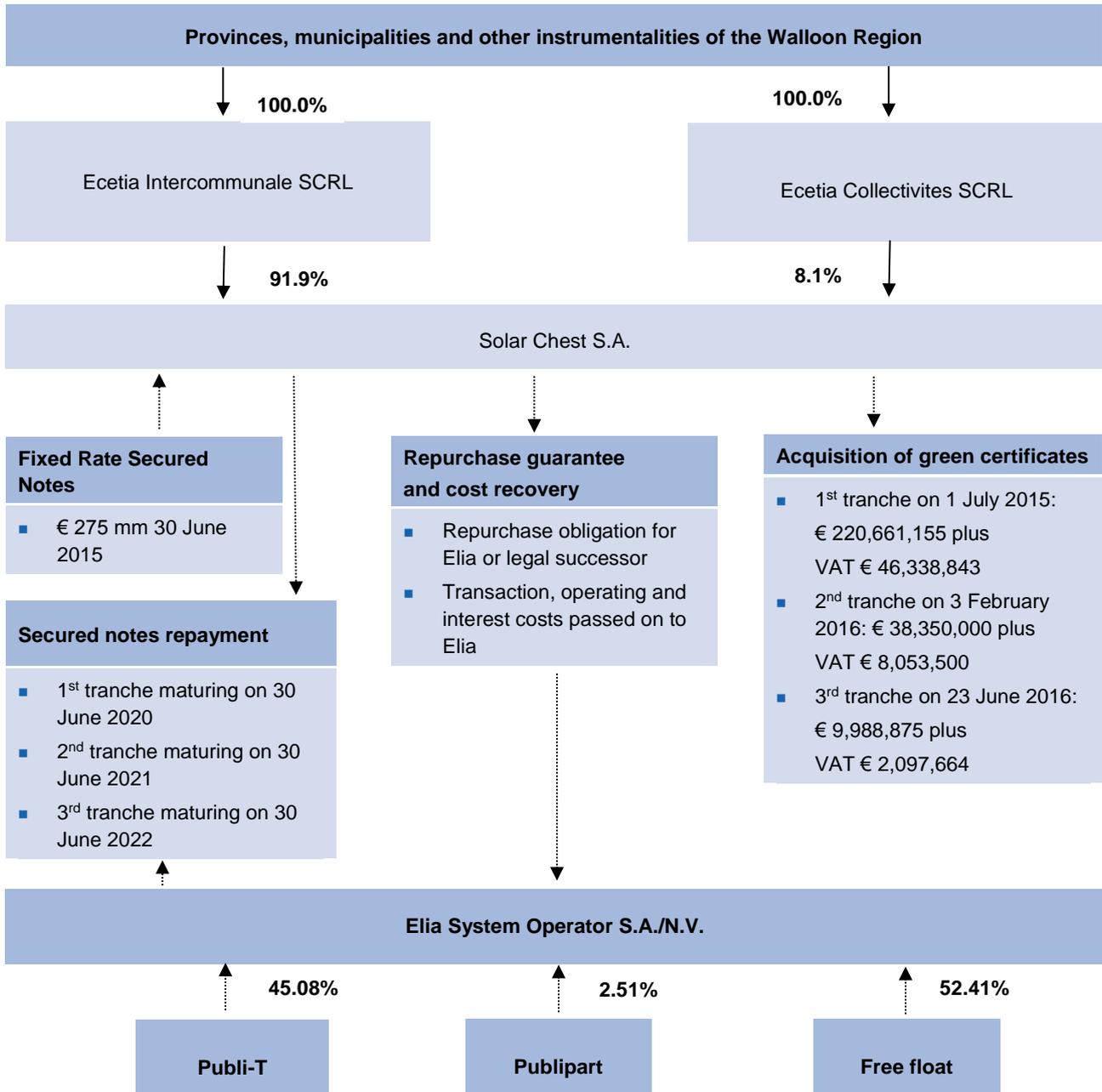
Euler Hermes Rating affirms the BBB+ rating of the Fixed Rate Secured Notes with an issue volume of € 275 million. The issue rating is largely based on Elia's guarantee to repurchase green certificates that Solar Chest had previously acquired from Elia, Elia's issuer rating and the legal and regulatory framework.

One key element of the legal framework is the decree approved on 12 December 2014, following which the Walloon government authorised Solar Chest to buy green certificates (€ 269 million plus VAT) in order to stabilise electricity tariffs in the Walloon Region. We expect a high recovery rate based on the bond terms (offering circular) and the legal and contractual reservation process, both of latter requiring the local transmission system operator (LTSO) to repurchase the certificates (at the end of the reservation or at an earlier mandatory buy-back) at the minimum purchase price defined by law. Elia will pay the interest, transaction and administration expenses as set out in the regulatory mandate. In return, Elia is authorised to impose future levies on electricity consumers in order to recoup financial charges, other transaction and operating costs, and all the costs associated with the return of unmarketable certificates within justified budget overruns and budgets approved by the federal regulator (CREG).

The creditor protections are reasonable in our view and include extensive oversight rights for the responsible regulators (CWaPE, CREG). We believe Solar Chest has sufficient financial flexibility given its cash position of € 2.7 million at 30 June 2016 and the contractual bridge loan of € 2.1 million (30 June 2016) granted by Elia to pre-finance the value-added tax incurred by acquiring the 3rd tranche of the green certificates on 23 June 2016, its option to demand advance payments from Elia, and Elia's obligations to provide additional funds in the event of budget overruns. We view as strengths the fact that external trustees monitor the use of funds and that bank accounts, receivables, certificates and securities have been pledged to bondholders and other secured creditors. The special rights of termination – for example if Elia or Solar Chest declare bankruptcy and cross acceleration clauses – are reasonable and appropriate in our view. The reservation is contractually linked to the transmission system operator's concession (which expires on 17 September 2022). We believe that creditors are adequately protected in the event of an early change of transmission system operators since the repurchase obligation will pass to Elia's legal successor. We view the fact that Solar Chest is contractually treated *pari passu* with other unsecured creditors of Elia as a strength to enable the timely debt service. Other strengths include public sector control over Solar Chest as a municipally owned entity.

Given the transaction structure and issue terms, the rating of the Solar Chest S.A. issue necessarily depends on the rating given to Elia (A-). This prompts us to lower the rating of the Solar Chest issue by one notch to BBB+.

Transaction structure



Disclaimer

The request for the issue rating for the Fixed Rate Secured Notes by Solar Chest S.A. was submitted on 25 March 2015 with the approvals of Ecetia Intercommunale SCRL (public law entity) and Elia System Operator S.A./N.V. The company visit to Elia System Operator S.A./ N.V. took place on 27 April 2016. The short version of the rating report of Elia System Operator S.A./ N.V. and this report were presented to Solar Chest S.A. on respectively 8 September and 13 July 2016, meaning that the rating process has now been concluded. On 12 July 2016 the notation proposal and the report on which it was based were reviewed by the Rating Committee and were approved in its present version. If this rating is not made public, the rating refers to this date. If the rating assessment is published on the rating agency's website (www.eulerhermes-rating.com), it will be followed by a subsequent one-year monitoring process. During this period, the companies Solar Chest S.A., Elia System Operator S.A./ N.V., Ecetia Intercommunale SCRL (public law entity) and Ecetia Collectivites SCRL (public law entity) and the environment in which these companies operate remain under observation. The rated companies are subject to unrestricted disclosure obligations to Euler Hermes Rating GmbH during this period and for Elia System Operator S.A./N.V. in accordance with the monitoring agreement entered into with the respective companies. Any change in the rating agency's assessment will result in a change in the published rating, meaning that the rating as shown on the internet represents the current rating assessment at all times. Continued publication after the expiry of the monitoring period is contingent upon a follow-up rating being conducted.

Solar Chest S.A. is solely and exclusively liable for any material errors or omissions in the documents and information supplied by Solar Chest S.A. openly and willingly in response to our requests for information.

The rating report may not be construed as constituting a recommendation to participate in certain facilities. All recipients of the information should conduct their own independent analysis, credit assessments and other reviews and evaluations which are customary and necessary to reach a final decision about the participation in certain facilities. It should be noted that the summaries of contracts, legislation and other documents included in the report are no replacement for examination of the corresponding full texts and the offering circular in respect of the Fixed Rate Secured Notes and the other underlying contracts. As of the date on which this information is published, it is not possible to guarantee that the information has not changed since being collected and that all information provided is still valid. Solar Chest S.A. is under no obligation to update the information.

The publication of this rating report may be prohibited by law in certain jurisdictions. Solar Chest S.A. therefore requests that any persons who gain possession of this information enquire about and comply with any such restrictions. Solar Chest S.A. does not assume any liability of any kind towards anyone with respect to the dissemination of this rating report in any jurisdiction whatsoever.

The management of Solar Chest S.A. issued a statement of completeness in writing to Euler Hermes Rating GmbH.

We have prepared this report to the best of our abilities and knowledge.

Euler Hermes Rating GmbH

Hamburg, 14 September 2016

Analysts

Karl Holger Möller, Senior Analyst and Project Head
Torsten Schellscheidt, Senior Analyst

Rating Committee

Dörte Mählmann, Director
Holger Ludewig, Director

Principal sources of information

- Certified consolidated financial statements for 2013-2015 of Elia System Operator S.A./N.V./Elia Asset S.A./N.V. (Elia) and Eurogrid GmbH (Eurogrid) as well as annual financial statements for 2013-2015 of Ecetia Intercommunale SCRL (ECETIA; public law entity) and Ecetia Collectivites SCRL (public law entity)
- Statutory annual accounts as of 31 December 2015 of Solar Chest S.A.
- Excerpts from the internal reporting system of Elia, Eurogrid and the Ecetia Gruppe (e.g. business performance in 2015 and 2016, tariff calculations, analysis of bank liabilities, etc.)
- Market analyses
- Strategy and corporate planning activities of Elia, Eurogrid and Ecetia Group
- Financial model and yearly budget Solar Chest as of 16 June 2015 (Appendices 2 and 3 of the CRA)
- Corporate and financing agreements, Elia Group
- Legislation, regulatory framework
- Talks with the Management of Ecetia, Solar Chest S.A. and Elia
- Information memorandum of the transaction for the reservation of green certificates (27.01.2015)
- Offering Circular with respect to the private placement of € 275 million, status as of 22 June 2015
- Terms and conditions of the Notes, status as of 25 June 2015
- Agreement for the purchase and reservation of green certificates (CRA) between Elia, Solar Chest S.A. and Security Agent, status as of 22 June 2015
- Master definitions and common terms agreement between Elia, Solar Chest S.A., ECETIA, Security Agent, Bank Degroof S.A., U.S. Bank Trustees Limited and BNP Paribas Fortis S.A., status as of 22 June 2015
- Corporate services and cash administration agreement between ECETIA, Solar Chest S.A., Security Agent and Cash Supervisor status as of 22 June 2015
- Security agency agreement between Solar Chest S.A., Elia, Security Agent, Corporate Services Provider, Cash Administrator, Account Bank and Cash Supervisor, status as of 22 June 2015
- Management agreement between ECETIA, Ecetia Collectivites, Solar Chest S.A. and Security Agent, status as of 22 June 2015
- Account bank agreement between Solar Chest S.A., Cash Administrator, Cash Supervisor, Security Agent und Account Bank, status as of 22 June 2015
- Bank accounts pledge agreement between Solar Chest S.A. and U.S. Bank Trustees Limited, status as of 22 June 2015
- Receivables pledge agreement between Solar Chest S.A. and U.S. Bank Trustees Limited, status as of 22 June 2015
- Green certificates pledge agreement between Solar Chest S.A. and U.S. Bank Trustees Limited, status as of 22 June 2015
- Securities account pledge agreement between Solar Chest S.A. and U.S. Bank Trustees Limited and BNP Paribas Fortis S.A., status as of 22 June 2015
- Cash Supervisor Agreement between Bank Degroof S.A., ECETIA, Solar Chest S.A. and Security Agent as of 22 June 2015

Rating method

Issuer rating of Euler Hermes Rating GmbH as of Mai 2016
([http://www.ehrg.de/seiten/Methodology - Issuer rating 2016 \(EHR\).pdf](http://www.ehrg.de/seiten/Methodology - Issuer rating 2016 (EHR).pdf))
Issue rating of Euler Hermes Rating GmbH of December 2014

Appendix 1: Rating notations

Category	Explanatory note
AAA	AAA rated companies have the highest quality, are characterized by an extremely positive future outlook and are viewed as "first-class". Even though the various security elements can certainly change, such changes – to the extent this can be assessed - are highly unlikely to adversely affect the fundamentally strong position of such companies.
AA	AA rated companies demonstrate very high quality with respect to future security. Along with the AAA rated companies, this group forms the so-called "quality class." Security margins may, however, be comparatively thinner, the solidity of the security elements may fluctuate more or individual assessment components may indicate a greater long-term risk than is the case for AAA rated companies.
A	AA rated companies demonstrate high quality with respect to future security. They show many favourable features which secure their future. Nevertheless, there may be isolated factors which reveal a slightly increased susceptibility to the worsening of circumstances and general economic conditions in the future.
BBB	BBB rated companies demonstrate reasonable quality with respect to future security. Compared to A rated companies, however, it is more likely that worsening of general economic conditions could weaken the capability of fulfilling financial obligations.
BB	BB rated companies still have structures adequate to secure their future. Yet they are subject to greater insecurities. Negative business developments or changes in the general financial and economic conditions can make it impossible for them to fulfil their financial obligations in a suitable manner any longer.
B	B rated companies lack the usual structures to secure their future. Negative business developments or changes in the general financial and economic conditions will most likely make it impossible for them to fulfil their financial obligations in a suitable manner any longer.
CCC	CCC rated companies have structures which greatly endanger the security of their future. Capital service is in jeopardy. Such a company is dependent on a favourable development of general economic conditions if it is to be able to meet its financial obligations in the long term.
CC	Companies receiving a CC rating have very little security for their future. Capital service is in great jeopardy.
C	C rated companies have the least future security of all. The basic conditions enabling such debtors to fulfil their financial obligations are extremely poor. Default is imminent.
D	Companies with a D rating are already in default of payment or have filed for bankruptcy. The D rating is irrelevant for the future; it solely documents the bankruptcy of the company.
SD	If an issuer defaults with respect to a certain financial liability or class of liabilities defaults but is still able to honour its payment obligations under other financial liabilities or classes of liabilities, the issuer is assigned SD (selective default) status.
NR	A debtor or an issuer not rated by Euler Hermes Rating is classified as NR (Not Rated).
PLUS (+) MINUS (-)	Rating notations from AA to CCC may be complemented by a PLUS (+) or MINUS (-) if required, in order to show their relative position within the respective rating category.