

Rating Action: Moody's upgrades Gasunie to A1 from A2; stable outlook

08 Aug 2018

London, 08 August 2018 -- Moody's Investors Service, (Moody's) has today upgraded to A1 from A2 the long-term issuer and senior unsecured debt ratings of N.V. Nederlandse Gasunie (Gasunie). Concurrently, Moody's has upgraded to (P)A1 from (P)A2 the ratings of the group's EUR7.5 billion senior unsecured EMTN programme. Finally, Moody's has affirmed the short term issuer rating of Gasunie at P-1. The outlook on all ratings has changed to stable from positive.

The rating action reflects Moody's view that Gasunie will maintain a solid financial profile over the period to 2020 under the regulatory determinations for its monopoly gas transmission activities in northern Germany and the Netherlands, which together account for the vast majority of the group's earnings, despite the incremental capex associated with facilitating the reduction and minimisation of gas extraction from the Groningen field in the Netherlands.

RATINGS RATIONALE

The A1/P-1 ratings factor in Moody's expectation that Gasunie will continue to maintain a solid financial profile, with Funds From Operations (FFO) / Net Debt in the high teens in percentage terms over the period to 2020.

Gasunie has good cash flow visibility until at least the end of 2021 for all its monopoly gas transmission operations (until end 2022 in Germany) following regulatory determinations in the Netherlands and Germany in the last 18 months. We expect Gasunie to outperform regulatory cost allowances in aggregate with the slight underperformance in the Netherlands offset by significant incremental revenue from regulatory settlements in Germany, although less than in the prior regulatory period. We expect these regulated gas transmission operations to account for almost 90% of reported group EBITDA over the period to 2020, given the decline in unregulated earnings since end 2016 from the majority of long-term contracts expiring on the BBL interconnector and recontracted capacity being significantly less profitable in the current market environment.

Regulatory allowed returns are materially lower than in the prior regulatory periods in both jurisdictions (2013-17 in Germany and 2014-16 in the Netherlands), weakening cash flow based metrics. However, we note that (1) Gasunie's FY2017 metrics already reflected the further cut in allowed returns for its Dutch operations (carried out by Gasunie Transport Services, GTS), which accounts for c. 80% of the group's regulated EBITDA; and (2) Gasunie has received favourable interim court/appeal body rulings in 2018 in both jurisdictions on this subject. The relevant bodies concluded that the allowed return (equity return in Germany) may have been set too low with the Dutch energy regulator required to re-determine the WACC by January 2019 and a final outcome expected in Germany in 2019/20 (the regulator is challenging the court's decision). Moody's expects the incremental revenues from the final re-determination, which include higher cost allowances for GTS (the court also ruled that the frontier shift, which is the scope for improving productivity resulting from technology progress and lower purchasing prices, may have been set too high) for the entire regulatory period, to be reflected in tariffs from 2020.

Moody's believes that GTS will play an increasingly important role in delivering Dutch national energy policy objectives, including both decarbonisation and the further material lowering of the Groningen gas production cap. The output cap has been reduced several times in recent years due to seismic activity in the region which has caused significant damage to thousands of homes and buildings and been attributed to decades of extraction at Groningen. Following the largest earthquake in recent years in January 2018, amendments to the Gas Act and Mining Act were proposed. Subject to these being passed into law, GTS's legal responsibilities will be made more explicit to ensure security of supply, while facilitating the reduction of the extraction from the Groningen field over time.

Irrespective of the final outcome of the amended Gas Act and Mining Act, GTS is able to recover in tariffs the costs for the most material incremental capex over the period to 2022 to facilitate these objectives, including an additional nitrogen facility which the company has guided will cost c. EUR0.5 billion. In addition, the Dutch regulator has given comfort to GTS that the related efficient costs (of blending gas) will not be taken into account in future efficiency benchmarks. This is important because since other gas network operators would not be required to undertake this activity, GTS's cost efficiency and, in-turn, cost allowances would otherwise

be lower increasing the risk of underperforming the regulatory settlement. This, coupled with modest other capex requirements (mainly replacement and maintenance), means that Moody's does not expect a material deterioration in Gasunie's financial profile from the required investments to facilitate government national energy policy objectives over the period to 2020. Finally, Gasunie's A1 rating incorporates a two-notch uplift from its standalone credit quality or Baseline Credit Assessment (BCA) of a3, taking into account its ownership by the Dutch government (Aaa stable) and the aforementioned strategic importance to national energy policy. Moody's assumes strong support and high dependence under the rating agency's methodology for Government-Related Issuers published in June 2018.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Gasunie will continue to maintain a solid financial profile, with FFO / Net Debt at least in the high teens in percentage terms and Net Debt / Fixed Assets below 55%, despite the incremental capex associated with maintaining security of supply in the Netherlands given the further reduction in the Groningen gas production cap.

WHAT COULD CHANGE THE RATING UP/DOWN

Although not currently anticipated over the period to 2021, upward rating pressure would arise if Gasunie were to exhibit a sustainably stronger financial profile, expressed as FFO / Net Debt at least in the low twenties in percentage terms and Net Debt / Fixed Assets below 45%, and no material change in business risk profile.

Downward rating pressure would arise if (1) Gasunie was unable to meet our ratio guidance for the current baseline credit assessment (BCA) of a3, which includes FFO / Net Debt at least in the high teens in percentage terms and Net Debt / Fixed Assets below 55%, or (2) there was a substantial increase in Gasunie's business risk profile, e.g. the absence of a regulatory framework that provides for timely cost recovery for the incremental investments required to ensure security of supply in the Netherlands. Finally, the rating could be downgraded if there was a reduction in the likelihood of extraordinary support by the Dutch government in a financial distress scenario.

The methodologies used in these ratings were Regulated Electric and Gas Networks published in March 2017 and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moody's.com for a copy of these methodologies.

N.V. Nederlandse Gasunie (Gasunie) is the 100% Dutch state-owned owner and operator of the Dutch and north German high pressure gas transmission systems. Over the 2015-17 period, Gasunie generated around 85% of its operating profit from these activities, with the majority of these regulated earnings coming from its Dutch operations. Gasunie's residual earnings relate to its participations in non-regulated businesses, which generate most of their revenues from long-term contracts. Gasunie reported revenues of EUR1,241 million and EBITDA of EUR753 million in FY2017.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody's.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related

rating outlook or rating review.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody's.com for additional regulatory disclosures for each credit rating.

Philip Cope
AVP-Analyst
Infrastructure Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Paul Marty
Senior Vice President/Manager
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Moody's
INVESTORS SERVICE

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE

ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian

Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.