

Issuance Rating of the Fixed Rate Secured Notes

Issued by
Solar Chest S.A.

17 July 2015

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Rating Rationale

17 July 2015	
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 fully owned by municipalities and provincial authorities located in the Walloon region. Issue date is the 30th June 2015. The purpose of the issue is to fund the purchase of 4,138,462 green certificates at the legal guaranteed minimum price of € 65 (excl. VAT) from Elia System Operator S.A./N.V. (Elia) to stabilize the electricity tariff in the Walloon region.</p> <p>In this connection we have assigned an A- corporate rating to Elia as of 30 April 2015.</p>	
Amount: € 275 million	
Maturing:	
<ul style="list-style-type: none"> ■ Tranche 1 € 75 million: 06/2020 ■ Tranche 2 € 100 million: 06/2021 ■ Tranche 3 € 100 million: 06/2022 	
Redemption: fixed-term rate	
Undertakings:	
<ul style="list-style-type: none"> ■ Legally guaranteed minimum repurchase obligation by Elia ■ green certificates purchases, transaction and operating costs and interests charged to Elia are covered by the tariff for public service obligation (levy) ■ Pledge of bank accounts, receivables, green certificates and Securities to the Noteholders and other secured creditors ■ Liquidity reserve of € 2.5 million ■ Commitments of Elia to grant a bridge loan and advance payments as requested 	
Termination rights:	
<ul style="list-style-type: none"> ■ Insolvencies Elia and Solar Chest ■ Cross acceleration ■ Other extraordinary termination rights 	

Euler Hermes Rating awards a BBB+ rating to the Fixed Rate Secured Notes according to issuance terms and conditions of 25 June 2015 with an issuance volume of € 275 million. The decisive factor for the issuance rating is the repurchase guarantee in respect of the green certificates purchased by Solar Chest from Elia in combination with the corporate rating of Elia as well as the statutory and regulatory framework.

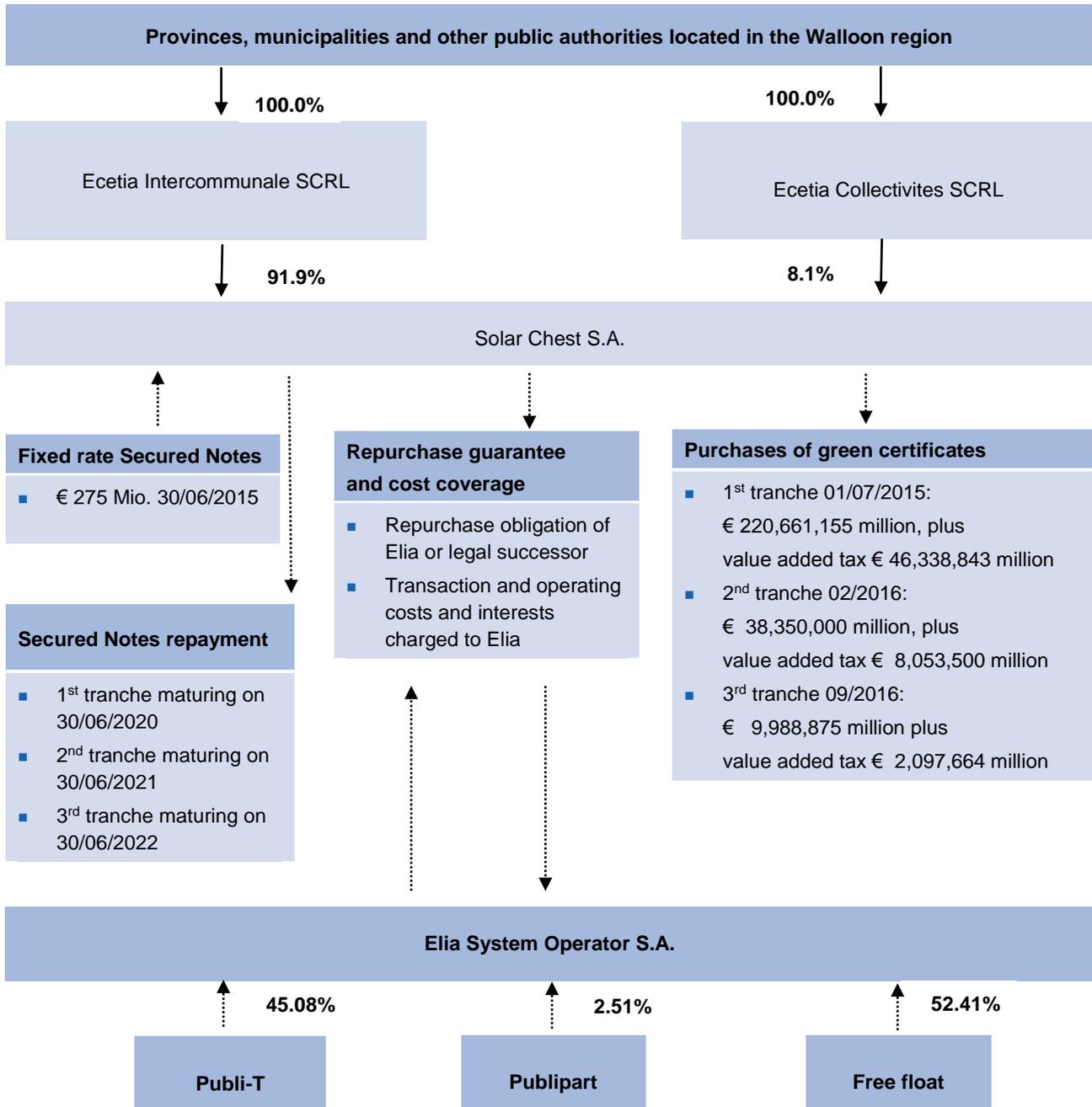
An essential element of the statutory framework is the decree of 12 December 2014, following which the Walloon government authorised Solar Chest to purchase green certificates. Accordingly, Solar Chest plans to place a bond issue of € 275 million. From our point of view the main factors in favour of a high repayment quota are the issuing terms and conditions (Offering Circular) and the statutory and contractual reservation process, which defines a guaranteed (early) repurchase obligation for the certificates at the minimum purchase price by the local transmission system operator (LTSO). In accordance with the regulatory mandate, interests and transaction and operating expenses are to be borne by Elia. At the same time, Elia will be authorised to pass on financial charges and other transaction and operation costs of Solar Chest S.A. in line with the budget and reasonable budget overruns approved by the federal regulator (CREG) by way of a future levy.

Positive factors in our opinion are the pledge of bank accounts, receivables and certificates as well as controls of the use of funding via external trustees. The undertaking of Elia to purchase outstanding green certificates at the end of the reservation or by an earlier mandatory buy-back ensures a high repayment quota of the bond resources. In our assessment the special rights of termination are appropriate in terms of their construction. Moreover the reservation is contractually tied to the grid operator's concession (expiring on 17 September 2022). Due to the transfer of the repurchase obligation to the successor-in-title, in the event of a premature change in transmission system operators, creditor protection will be secured in our view. We consider the contractual *pari passu* clause vis-à-vis the unsecured bond creditors at Elia level as a positive factor to ensure the timely repayment of principal and interests. We assess the influence being taken by the public sector on Solar Chest by 100% municipal participations and the exercise of restrictive control rights (the decree of 12 December 2014 provides that Solar Chest must be owned by public law entities) as positive.

We consider the financial flexibility of Solar Chest as adequate, taking account of the liquidity reserve of € 2.5 million, a contractually agreed bridge facility (€ 2.1 million) to prefinance value added tax (VAT) payments in respect of part of the acquisition of the green certificates and the possibility for Solar Chest to request advance payments by Elia as well as mandatory supplementary contributions by Elia in the event of budget overruns. The financing of VAT payments on the acquisition of green certificates by Solar Chest will be secured by the certificate purchases planned in several tranches in 2015 / 2016.

Overall, our rating for the Solar Chest bond issue is BBB+.

Transaction structure



In Belgium, the Walloon, Flemish and the Brussels regions are responsible for the expansion of renewable energy onshore structures. In the Walloon region, a system of tradable green certificates has been in place since 2003 in order to encourage the use of renewable energy for electricity production.

Renewable energy producers receive green certificates from the regional regulatory authority for the Walloon region (CWaPE) based on the MWh they produce. The producers can sell the certificates to energy suppliers, as they have to deliver a quota of green certifi-

icates to the regulator, based on the quantity of electricity they supply to customers. Alternatively, renewable energy producers can sell the certificates at a legal guaranteed minimum price currently amounting to € 65 (excluding VAT) to the LTSO Elia, which has a public service obligation to purchase and to cancel the offered Green Certificates. Elia has been appointed as LTSO for the Walloon Region until the end of the concession on 17 September 2022. Elia transferred the Green Certificates costs in a 1st term Levy (€ 13.82/ MWh, effective 01 January 2013) in the grid tariff charged to the grid users connected to the network of the LTSO and to the DSO which transfer the levy to the final grid users. Some of these grid users benefit from partial exemption of 50% or 85%.

As a result of the success of the incentive mechanism, there is a growing imbalance between supply and demand, leading to a sale of more than expected green certificates to Elia, which should lead to a substantial tariff increase. To limit the negative impact of such substantial tariff increase, as the Levy of € 13.82/ MWh has become insufficient for Elia to recover the costs of buying green certificates, and to secure the acceptance of the energy tariffs, the Walloon Parliament has provided for a reservation mechanism. Furthermore additional measures were taken, with the aim to gradually manage and restore the balance between demand and supply on the green certificates market by among others reducing the supply of certificates, such as the replacement of the green certificates scheme by a different support mechanism (“Qualiwatt”) for new small-scale photovoltaic installations put in service after March 1st 2014 or the decrease of the time-period during which green certificates are granted to the owners of existing small-scale photovoltaic installations. In our view nevertheless there are uncertainties, whether market imbalances will effectively be solved in the future. However, the future market development will not have any impact on the repurchase obligation price of Elia.

Shareholders of Solar Chest S.A. (share capital 31 May 2015: € 61.500) are the public law entities ECETIA Intercommunale SCRL (ECETIA: 113 Shares) and ECETIA Collectivites SCRL (10 Shares). ECETIA is an intermunicipal company whose share capital is exclusively owned by municipalities, the provinces of Liege and Luxembourg and other public authorities located in the Walloon region in Belgium. ECETIA provides among others services to develop and finance the real estate surrounding of Liege airport.

The Board of Directors of Solar Chest S.A. consists of ECETIA Intercommunale represented by Bertrand Demonceau and ECETIA Collectivites represented by Laura Giangreco. Solar Chest is a special purpose vehicle which may only perform the reservation transaction. Before the issue of the Fixed Rate Secured Notes, the CWaPE has approved the amount of green certificates to be included in the reservation scheme at € 65 per certificate (CWaPE decision as of 19 May 2015). The CREG has approved the reasonable nature of the transaction, financing and administrative costs to be covered by future levies compliant to regulatory framework and has confirmed its decision that all costs related to the repurchase of nonmarketable certificates will be covered by future levies (CREG decision as of 17 July 2015).

The purpose of the issuance is to stabilize tariffs in the new tariff period 2016-2019

Measures adopted by the legislature in the Walloon region

In our view, expected support of the public sector

Approval of the regulators

Disclosure

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. and the management talks with Ecetia Intercommunale SCRL (public law entity) and Solar Chest S.A. took place on 2 March 2015. 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 29 May and 23 July 2015, meaning that the rating process has now been concluded. On 2 June 2015 the notation proposal was 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 to be concluded between the parties. 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, 23 July 2015

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 2012-2014 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 2012-2014 of Ecetia Intercommunale SCRL (ECETIA; public law entity) and Ecetia Collectivites SCRL (public law entity)
- Certified opening balance sheet of Solar Chest S.A.
- Excerpts from the internal reporting system of Elia, Eurogrid and the Ecetia Group (e.g. business performance in 2014 and 2015, tariff calculations, analysis of bank liabilities, etc.)
- Market analyses
- Strategy and corporate planning activities of Elia, Eurogrid, Ecetia and Solar Chest S.A.
- Initial Financial Model and Annual Budget of Solar Chest as of 16 June 2015 (Exhibit 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 4 June 2015

Rating methodology

Issuer rating of Euler Hermes Rating GmbH of December 2014
(<http://www.ehrg.de/seiten/Methodik2014.pdf>)
and
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.