

Rating Action: Moody's changes outlook on Gasunie's A2/P-1 ratings to positive

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London, 22 May 2017 -- Moody's Investors Service, (Moody's) has today changed the outlook on N.V. Nederlandse Gasunie (Gasunie) to positive from stable. Concurrently, the rating agency affirmed Gasunie's A2/P-1 long-term and short-term issuer ratings and the A2 senior unsecured debt ratings. Finally, Moody's has affirmed the (P)A2 rating on Gasunie's EUR7.5 billion EMTN programme.

The rating action follows (1) the publication of the Final Determination for Gasunie's regulated Dutch gas transmission activities for the 2017-21 period, which accounted for 72% of the group's normalized operating profit in 2016, and (2) further reductions in the company's planned capex programme over the rest of the decade.

RATINGS RATIONALE

- OUTLOOK CHANGE TO POSITIVE FROM STABLE -

"The positive outlook for Gasunie's ratings reflects Moody's expectation that Gasunie will continue to maintain a solid financial profile despite the challenging determination for its regulated Dutch gas transmission activities for the current regulatory period" said Philip Cope, an Analyst at Moody's and lead analyst for Gasunie.

In February 2017, the Dutch Regulator published its Final Determination (Method Decisions) for Gasunie's regulated transmission activities in the Netherlands for the 2017-21 period. Moody's views the Final Determination as challenging, primarily due to the further reduction in allowed returns, but more benign than the Draft Determination. This reflects the Dutch regulator's more favourable view of Gasunie's operational efficiency which resulted in increased cost allowances and, in turn, allowed revenues, reducing the risk of Gasunie underperforming against the settlement as a whole. Reflecting this, Gasunie's annual allowed revenues from these activities will fall by around EUR100 million in 2017 and by a further EUR100 million over the 2018-21 period. Although Gasunie has appealed two aspects of the Method Decisions these are on specific points of detail, rather than the wider approach, and are unlikely to alter Gasunie's financial profile.

Due to this challenging determination, principally, and the reduction in earnings from (1) the announced reduction in the cost of equity for its regulated gas transmission activities in Germany for the forthcoming regulatory period (2018-22); and (2) the expiry of a significant proportion of the long-term contracts on the BBL pipeline in December 2016, Moody's expects Gasunie's adjusted FFO to be around 20-25% below 2016 levels over the 2017-19 period, which will, in turn, weaken Gasunie's cash flow based metrics.

However, the group has exhibited a solid financial profile in recent years - Gasunie's FFO / Net Debt has been around 20% over the 2014-16 period compared to Moody's (revised) ratio guidance for the existing rating of FFO / Net Debt in the low-to-mid teens in percentage terms. Moreover, Moody's expects the group to deleverage by around EUR0.2 billion per annum over the rest of the decade, absent a (1) change in the dividend payout ratio (60% of net income in recent years); and (2) any material expansion projects. This reflects Gasunie's guidance at its FY2016 results of a very modest capex programme, c2-3% of net PP&E over this period, mainly coming from its maintenance and replacement programme. Consequently, under this scenario, Moody's expects Gasunie's FFO / Net Debt to be in the high teens, in percentage terms, over the rest of the decade.

AFFIRMATION of GASUNIE'S A2/P-1 RATINGS

The affirmation of Gasunie's A2/P-1 ratings reflects the low business risk profile of its regulated gas transmission network operations. These generate around 80-85% of the group's reported operating result and are governed by well-defined and relatively stable regulatory regimes in the Netherlands and Germany. The rating positively reflects the further reduction in planned capex levels which allows significant deleveraging of the business, under the current dividend payout policy, partially offsetting the significant reduction in earnings in 2017.

Finally, Gasunie's A2 rating incorporates a two-notch uplift from its stand-alone credit quality, taking into

account its ownership by the Dutch government (Aaa/P-1, stable) and the strategic importance to national energy policy.

The tightening of the rating agency's FFO / Net Debt ratio guidance for the current rating, from the low teens to the low-to-mid teens (both in percentage terms), reflects the reduced cash flow predictability of its earnings from its unregulated business (1) as some of the existing long-term contracts in Gasunie's participations roll off and are replaced by shorter-term contracts; and (2) from Gasunie's investments in technologies to accelerate the transition to a CO2-neutral energy supply.

WHAT COULD CHANGE THE RATING UP/DOWN

The rating could be upgraded if Gasunie continues to demonstrate FFO / Net Debt in the high teens in percentage terms, without an increase in business risk, and Net Debt / Fixed Assets remained below 55%.

The outlook could be stabilised in the event that (1) it appears unlikely that Gasunie can sustain metrics indicated for an A1 rating, e.g. as a result of a material increase in the dividend payout ratio (60% in recent years) or undertaking material expansion projects; or (2) there is a further increase in Gasunie's business risk profile, in particular the composition and expected evolution of earnings from its unregulated business.

Although not currently expected, downward rating pressure would arise if (1) Gasunie was unable to meet Moody's ratio guidance for the current A2 rating, which includes FFO / Net Debt at least in the low-to-mid teens in percentage terms and Net Debt / Fixed Assets below 65%, or (2) there was a substantial increase in Gasunie's business risk profile, e.g. from a material expansion in south-eastern Europe, that was accompanied by a deterioration in Gasunie's financial profile.

The methodologies used in these ratings were Regulated Electric and Gas Networks published in March 2017, and Government-Related Issuers published in October 2014. Please see the Rating Methodologies page on www.moodys.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. In recent years Gasunie has generated around 80-85% of its operating profit from these activities with the majority of the residual earnings relating to its participations in non-regulated businesses, which, in totality, generate most of their revenues from long-term contracts. Gasunie reported revenues of EUR1,548 million for 2016.

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