CREDIT OPINION
22 July 2016

Update

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RATINGS

Enexis Holding N.V.

Domicile	Rosmalen, Netherlands
Long Term Rating	Aa3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information.The ratings and outlook shown reflect information as of the publication date.

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Enexis Holding N.V.

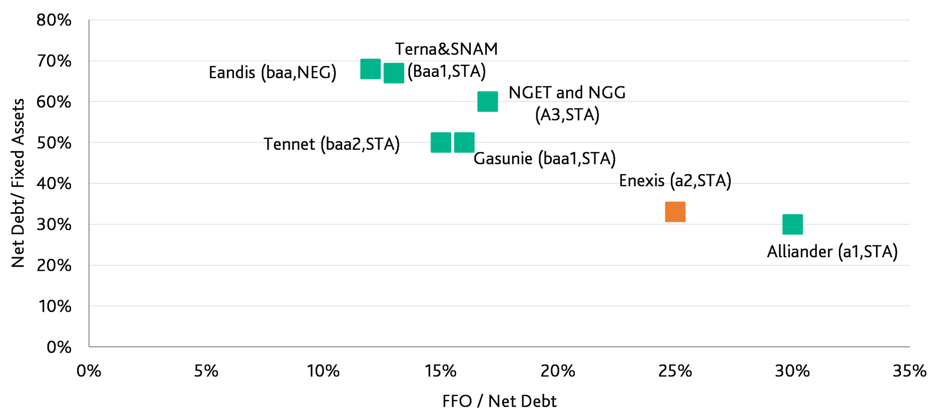
Update following draft regulatory proposals

Summary Rating Rationale

The Aa3 long-term issuer rating of Enexis Holding N.V. (Enexis) reflects the low business risk of its electricity and gas distribution operations, which generate more than 90% of earnings and cash flows, supported by a well-defined and transparent Dutch regulatory framework. The company has historically maintained a strong financial profile but we anticipate some decline in financial metrics over the medium term, as allowed returns reduce further from 2017, and following a €359 million payment to Alliander N.V. (Aa2 stable) under an asset swap transaction, which became effective on 1 January 2016. Nevertheless, overall leverage will remain modest in the wider European context.

Exhibit 1

Modest leverage compared to European peers supports strong stand-alone credit quality



Note: (1) Financial metrics used represent middle point of Moody's forward view estimates as published in latest credit opinions and ratings are the stand-alone credit quality (expressed as assigned final rating or baseline credit assessment where applicable); (2) NGET - National Grid Electricity Transmission plc and NGG - National Grid Gas plc
Source: Moody's forward view

The Aa3 rating incorporates a two-notch uplift from Enexis's stand-alone credit quality, reflecting the likelihood of extraordinary financial support being provided by its owners, and ultimately the Dutch government, if this were ever required.

Credit Strengths

- Low business risk of network activities operating under a stable and transparent regulatory regime, with limited contribution from unregulated businesses
- Moderate capital expenditure requirements
- Modest leverage compared with wider peer group supports strong stand-alone credit quality
- Two notches of rating uplift for potential support from government shareholders

Credit Challenges

- Falling regulatory returns in the current low interest-rate environment reduce financial flexibility

Rating Outlook

The stable outlook reflects our expectation that Enexis will continue to derive most of its revenues and cash flows from low-risk regulated activities and maintain a financial profile in line with our minimum guidance for the current rating (see below).

Factors that Could Lead to an Upgrade

An upgrade of the final rating is considered unlikely at this time, taking into account (1) the latest regulatory proposal with allowed returns decreasing further; (2) the ongoing capital requirements with additional smart metering investments; and (3) the expected weakening of Enexis's financial profile as a result of net payment to peer network operator Alliander under an asset swap transaction.

Factors that Could Lead to a Downgrade

For Enexis to maintain its current BCA of a2, we would expect the company to exhibit on a sustainable basis the following minimum credit metrics: a funds from operations (FFO)/net debt ratio in the mid to high teens, and leverage on the basis of net debt/fixed assets no higher than the low fifties in percentage terms.

The final rating could also be subject to downward pressure if our assessment of the credit quality of the government of the Netherlands and the associated credit risk of the municipalities and provinces owning Enexis changes or our view of extraordinary support weakens.

Key Indicators

Exhibit 2

Enexis exhibits strong financial metrics

	12/31/2015	12/31/2014	12/31/2013	12/31/2012	12/31/2011
FFO Interest Coverage	6.4x	7.7x	5.8x	6.8x	6.5x
Net Debt / Fixed Assets	28.4%	28.7%	30.6%	32.6%	31.2%
FFO / Net Debt	31.4%	33.7%	31.9%	31.8%	33.5%
RCF / Net Debt	23.9%	26.8%	25.5%	25.6%	30.0%

Note: All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics TM

Detailed Rating Considerations

Low business risk underpinned by regulated cashflows

Enexis's core business activities relate to low-risk regulated network operation. These activities generate predictable cash flows over the medium to long term and provide good visibility on future funding requirements.

Less than 10% of Enexis's revenues are derived from other utility services. These non-regulated businesses are complementary to the core activities and include the Fudura energy services brand as well as public lighting and traffic management services as a joint venture with neighbouring network owner Alliander.

Established regulatory framework but returns continue to decline

The Dutch framework, applied since 2000 and 2001 for electricity and gas networks, respectively, allows the country's distribution companies to earn a return on their regulated asset base (RAB), adjusted for consumer price index (CPI) inflation and an efficiency incentive factor. The regulation incorporates incentives based on a "yardstick" mechanism, which defines the cost efficiency and quality factors based on industry averages and encourages network companies to improve profitability by outperforming the sector. This approach is typical of peer regulatory regimes in Europe and we consider that the application of the Dutch regulatory methodologies by the regulator, the Authority for Consumers and Markets (ACM), has been transparent and consistent to date.

The current price control period for both electricity and gas runs until December 2016. In April 2016, ACM published its draft consultation for the next regulatory period commencing in 2017, proposing a further gradual reduction in the allowed return to 3.1% (pre-tax, real) by 2021 from 3.6% during 2016 (see Moody's sector-in-depth comment 'Dutch Regulated Energy Networks: Lower allowed return poses fresh challenge', published in May 2016).

Exhibit 3

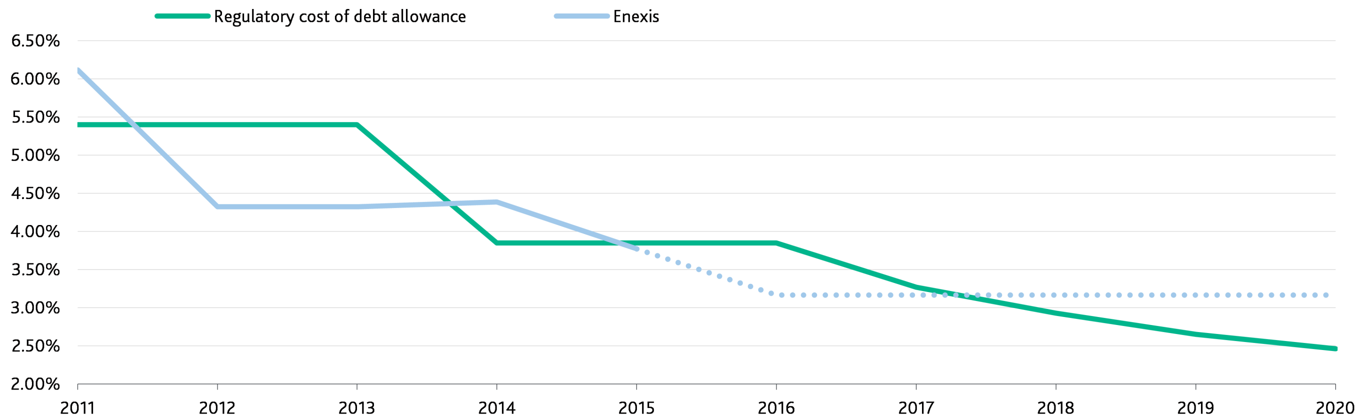
Allowed return for Dutch network operators shows declining trend

	2010-13*	2011-13*		2014-16	2016**	2017	2018	2019	2020	2021
	G-TSO	E-TSO	E+G-DSO							
Cost of debt (%)	4.6-5.4	5.0-5.9	5.0-5.9	3.85	*3.57*	3.27	2.93	2.65	2.46	2.25
Cost of equity (%)	6.3-8.5	7.2-8.1	7.2-8.7	5.56	*4.89*	4.89	4.89	4.89	4.89	4.89
Notional gearing (%)	50-60	50-60	50-60	50	*50*	50	50	50	50	50
Tax (%)	25	25.5	25.5	25	*25*	25	25	25	25	25
WACC (nominal pre-tax)	6.1-8.4	6.9-8.4	6.9-8.8	5.63	*5.04*	4.89	4.73	4.59	4.49	4.38
Inflation (%)	1.3-1.5	1.5-1.6	1.5-1.6	2	*1.26*	1.26	1.26	1.26	1.26	1.26
Calculated WACC ranges (real pre-tax)	**4.7-6.8%**	**5.3-6.7%**	**5.3-7.1%**	**3.6%**	***3.7%***	**3.6%**	**3.4%**	**3.3%**	**3.2%**	**3.1%**
Allowed WACC (real-pre-tax)	**5.8%**	**6.0%**	**6.2%**	**3.6%**						

Notes: * For the period 2010/11-13, the WACC differed across the network companies, set at 5.8% for Gasunie (2010-13), 6.0% for TenneT (2011-13) and 6.2% for Alliander and Enexis (2011-13). The return allowance stepped down each year to reach the allowed level in the last year of the period. ** In its draft proposal, the ACM also set out the WACC calculation for 2016 under the revised approach for including embedded cost of debt. This will flow into the analysis of efficient costs to determine revenue allowances for 2017-21. Moody's calculations for 2017-20 reflect the 10-year trailing average cost of debt approach as proposed by the ACM.
Source: ACM, Moody's calculations

The reduction in allowed returns will be less material than for the current regulatory period where it fell from 6.2% to 3.6% (both pre-tax, real) in gradual steps over the 2014-16 period. Enexis has demonstrated its ability to operate within the bounds of the regulatory return allowance, and to fund comfortably within the cost of debt implied by the allowed returns. We expect Enexis's cost of external debt to remain below the proposed cost of debt until 2017, supported by recent bond issuance, including the €500 million 1.5% 8-year notes raised in October 2015, to pre-fund payment to Alliander for an asset swap transaction, and the €500 million 0.875% 10-year notes issued in April 2016, to pre-pay two shareholder loans of around €600 million.

Exhibit 4
Regulatory allowance for cost of debt 2017-2021 and Enexis's average cost of debt (Moody's estimate)



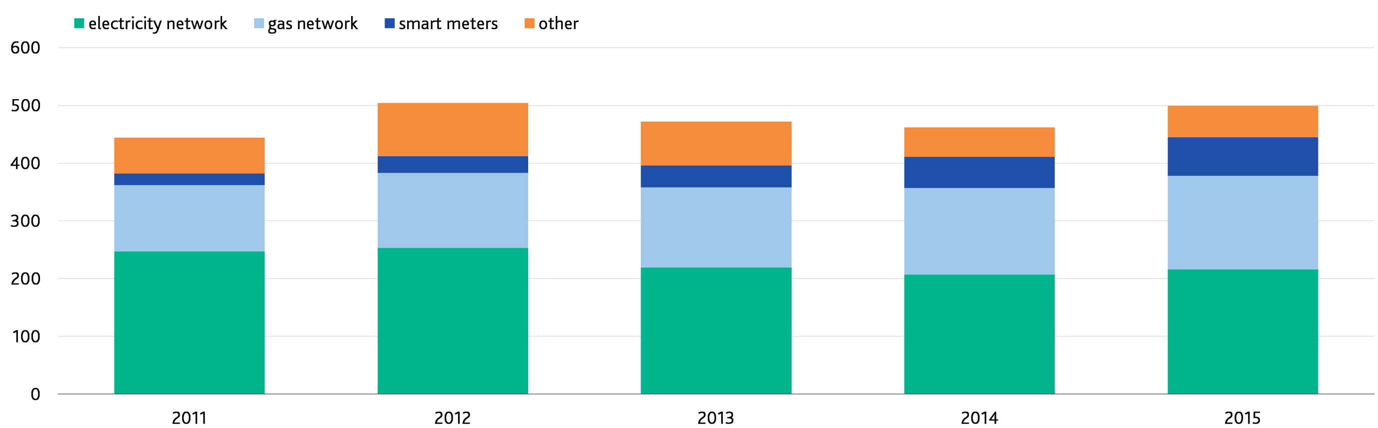
Note: Moody's estimates exclude Enexis's refinancing needs in 2019-2020
Source: ACM, Enexis annual reports and Moody's estimate

The regulator also imposes a series of cost efficiency targets on the networks, which combined with the allowed return determine the so-called `X-factor', currently set around 5% for electricity and 7% for gas annually for Enexis. This results in an incremental decline in the element of revenue funding of operating costs. While base costs will be reset on the basis of average costs in the period 2013-2015, efficiency targets may still prove challenging if retained at similar levels to those in the current period.

Moderate capital expenditure requirements post asset swap transaction

Enexis's internal investment plan does not present a challenge in terms of scale or growth ambitions. We expect capital expenditure to gradually increase over the current regulatory period, reflecting the roll out of smart meters, with overall investments (gross of customer contributions) of around €600 million p.a., a slight increase from current levels of ca. €450-500 million p.a.

Exhibit 5
Moderate capex requirements support financial metrics (in € millions)



Source: Enexis

Investment in 2016 will be considerably higher than the annual average due to the Alliander asset swap payment. Under the transaction, Enexis transferred its networks in the Friesland province and the Noordoostpolder area, in exchange for Alliander's network in the Eindhoven and Southeast Brabant region (operated by Endinet). This is part of the Dutch government's wider policy to arrange network operations along provincial borders.

Alliander's Endinet business serves a larger number of customers (108,000 electricity and 398,000 gas connections) than the Enexis assets to be transferred (combined 79,000 electricity and 223,000 gas connections). Therefore, Enexis compensated Alliander by the amount of €359 million. Enexis financed the asset swap with debt issuance and this will have a modest negative impact on its financial profile. However, it doesn't materially alter its overall credit quality.

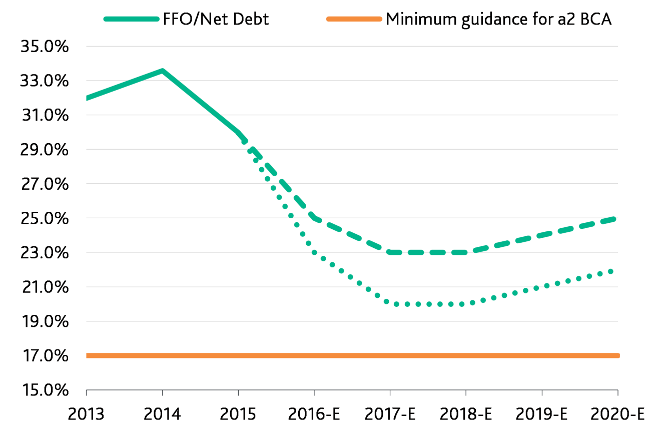
Modest leverage compared with wider peer group supports strong stand-alone credit quality

Like its closest peer Alliander, Enexis exhibits a strong financial profile with modest financial leverage compared with the wider European peer group of energy network companies. Over the medium term, we expect that Enexis's metrics will weaken with (1) the reduction in allowed returns (itself a reflection of the lower interest rate environment); (2) slightly increased investment requirements from the roll out of smart meters; and (3) the €359 million payment to Alliander.

Nevertheless, overall leverage will remain modest in the wider European context. We forecast Enexis to maintain FFO/net debt in the low to mid- twenties in percentage terms and net debt/fixed assets below 40% over the medium term. The robust financial profile is also supported by a comparably modest dividend policy, with a payout ratio of 50%, with an implicit commitment to shareholders to maintain an absolute dividend level of around €100 million on a best efforts basis.

Exhibit 6

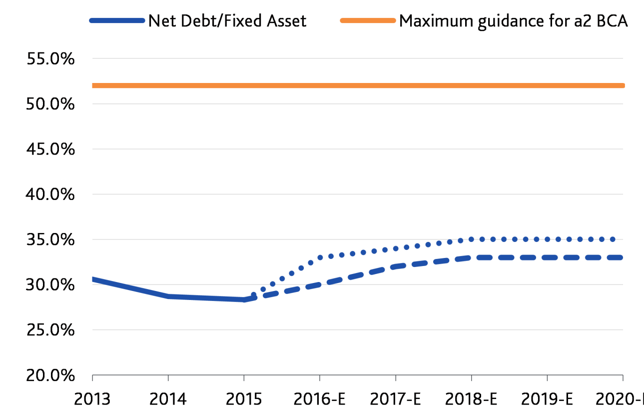
Moody's forecast declining cash flows due to lower returns...
FFO/Net Debt against guidance



Note: [1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; [2] As of 12/31/2015; [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics TM, Moody's forecast incorporating draft regulatory proposals

Exhibit 7

... but relatively stable RAB-gearing
Net Debt/Fixed Assets against guidance



Note: [1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; [2] As of 12/31/2015; [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics TM, Moody's forecast incorporating draft regulatory proposals

Liquidity Analysis

Enexis's liquidity position is supported by strong cash flow generation from its regulated monopoly network activities and solid cash reserves (€657 million at December 2015, including deposits and marketable securities, as well as €359 million paid to Alliander at the beginning of 2016 for the asset swap transaction). The company's liquidity position is further underpinned by an undrawn €600 million revolving credit facility (RCF) maturing in June 2021.

The repayment profile is manageable with €350 million of the last outstanding shareholder loan maturing in 2019 and the first bond (€500 million) maturing in 2020. Enexis repaid its €500 million shareholder loan due in November 2016 in April 2016 and expects to repay the €82 million perpetual shareholder loan notes later this year.

Profile

Enexis Holding N.V. is a holding company of Enexis B.V., which owns and manages the gas and electricity distribution networks in several Dutch regions, covering around 31% of the country. Enexis B.V. generates more than 95% of the group's revenue and represents 99% of group assets and liabilities. Moody's rates both Enexis Holding N.V. and Enexis B.V. (together "Enexis") at Aa3 stable. Enexis is one of the three largest electricity and gas network operators in the Netherlands responsible for the maintenance, management and development of the medium-voltage electricity and gas distribution grids. It operates around 136,500 km of electricity cable and 46,200 km of gas pipelines, delivering electricity to approximately 2.7 million customers and gas to 2.25 million customers.

Enexis is fully owned by Dutch provinces and municipalities, with the largest owners being the provinces of Noord Brabant (31%), Overijssel (19%), Limburg (16%), Groningen (6%) and Drenthe (2%). The remaining 26% stake is owned by one other small province and approximately 113 municipalities where Enexis provides its network services.

Rating Methodology and Scorecard Factors

The principal methodology used in assessing Enexis's stand-alone credit quality, i.e. prior to incorporating the benefit of its ownership structure, is Moody's rating methodology for regulated electric and gas networks, published in November 2014.

The indicated rating from the regulated networks methodology grid is A1, one notch higher than the assigned a2 baseline credit assessment (BCA), reflecting the historically strong financial metrics. Over the next 12-18 months, we expect Enexis to continue to exhibit a very strong financial profile, but to modestly weaken beyond 2016 as a result of lower allowed returns.

Exhibit 8

Enexis Holding N.V. - Rating Grid

Regulated Electric and Gas Networks Industry Grid [1][2]	Current FY 12/31/2015		Moody's 12-18 Month Forward View As of July 2016 [3]	
Factor 1 : Regulatory Environment and Asset Ownership Model (40%)	Measure	Score	Measure	Score
a) Stability and Predictability of Regulatory Regime		Aa		Aa
b) Asset Ownership Model		Aa		Aa
c) Cost and Investment Recovery (Ability and Timeliness)		A		A
d) Revenue Risk		Aa		Aa
Factor 2 : Scale and Complexity of Capital Program (10%)				
a) Scale and Complexity of Capital Program		Baa		Baa
Factor 3 : Financial Policy (10%)				
a) Financial Policy		A		A
Factor 4 : Leverage and Coverage (40%)				
a) FFO Interest Coverage (3 Year Avg)	6.5x	Aa	6x - 8x	Aa
b) Net Debt / Fixed Assets (3 Year Avg)	29.2%	Aaa	31% - 34%	Aa
c) FFO / Net Debt (3 Year Avg)	32.3%	Aa	22% - 25%	A
d) RCF / Net Debt (3 Year Avg)	25.4%	Aa	17% - 20%	A
Rating:				
Indicated Rating from Grid Factors 1-4		Aa3		A1
Rating Lift	0	0		0
a) Indicated Rating from Grid		Aa3		A1
b) Actual BCA Assigned				a2
Government-Related Issuer				**Factor**
a) Baseline Credit Assessment				a2
b) Government Local Currency Rating				Aaa,STA
c) Default Dependence				Very High
d) Support				Strong
e) Final Rating Outcome				Aa3

Note: [1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; [2] As of 12/31/2015; [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics TM

Enexis is fully owned by Dutch regional and local governments, with public ownership of the networks required by current legislation. Therefore, in assessing Enexis's credit quality, we apply our rating methodology for government-related issuers, published in October 2014. Our assumption of strong systemic support in the event of need reflects Enexis's strategic importance as a pure network company, and the high reputation risk to its owners. Although ownership of Enexis is relatively fragmented among 119 provinces and municipalities, we perceive the shareholders to be capable and willing to act in conjunction with one another. In determining the probability of systemic support as "strong", we have also taken into account the 72% ownership share of the four largest provinces and their historically proven ability to reach consensus in event of need. Furthermore, in our view, the legal and political mechanisms established in the Netherlands, including the legal requirement for public ownership of distribution network assets, increase the probability of systemic support by the Dutch Government being provided to a strategically important network operator in the event of extraordinary need.

Our assessment of a very high level of dependence (i.e. the degree of exposure to common drivers of credit quality) between Enexis and the Government of the Netherlands reflects our expectation that Enexis, like its owners, will continue to derive all of its revenues from domestic sources.

The above factors result in two notches of rating uplift from Enexis's stand-alone credit quality, expressed as a BCA of a2.

Ratings

Exhibit 9

Category	Moody's Rating
ENEXIS HOLDING N.V.	
Outlook	Stable
Issuer Rating -Dom Curr	Aa3
Senior Unsecured -Dom Curr	Aa3
ENEXIS B.V.	
Outlook	Stable
Issuer Rating -Dom Curr	Aa3

Source: Moody's Investors Service

REPORT NUMBER 1032630

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