STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

Summary:
Enexis Holding N.V.

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Table Of Contents

Summary:

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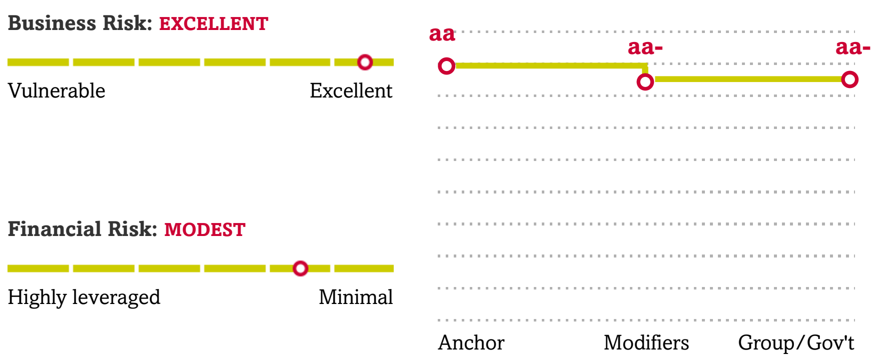

CORPORATE CREDIT RATING
AA-/Stable/--

Rationale

Business Risk: Excellent	Financial Risk: Modest
• Monopoly owner and operator of the second-largest regional electricity and gas distribution networks in The Netherlands. • Relatively stable and predictable earnings from regulated and low-risk business. • Exposure to periodic regulatory reset risk, with the next regulatory period starting on Jan. 1, 2017.	• Predictable free cash flow generation from the regulated electricity and gas distribution networks during a regulatory period. • Sizable capital expenditure program and risk that investments could increase above our base-case projections due to acquisitions or asset swaps.

Outlook: Stable

Standard & Poor's Ratings Services' outlook on Dutch electricity and gas distribution network company Enexis Holding N.V. and its subsidiary Enexis B.V. (jointly Enexis) is stable. This reflects our opinion that Enexis will be able to sustain adjusted funds from operations (FFO) to debt of about 25% in 2014-2015. Underpinning this opinion are our assumptions that we will continue to assess Enexis' business risk profile as "excellent," despite the final resolution for the 2014-2016 tariff, published by the Dutch Ministry of Economic Affairs and the Dutch regulator (ACM), that will adjust tariffs downward considerably to reflect the lower interest rates on government bonds.

Downside scenario

We could lower the ratings if we believe that the company's FFO to debt declined and remained below 23%, a level we would no longer consider commensurate with a "modest" financial risk profile. In our view, this could occur either through further sector consolidation in the Netherlands or through an extraordinary dividend distribution.

Upside scenario

Given the regulated tariffs through 2016 and the company's capital expenditures program and dividend policy, we could raise the ratings if we deemed it likely that Enexis would be able to sustain adjusted FFO to debt of about 35%, all else remaining equal. However, we consider this scenario unlikely.

Standard & Poor's Base-Case Scenario

Assumptions

- Average compounded annual decrease of revenues by 2% over 2014-2016
- Capital expenditures of €1.5 billion over the regulatory period 2014-2016.
- Dividend payout ratio of 50% over 2014-2016.

Key Metrics

	2013e	2014f	2015f	2016f
EBITDA margin (%)*	53.2	47.4	47.2	46.2
Debt/EBITDA (x)*	2.3	3.0	3.2	3.4
FFO/debt (%)*	33.8	26.2	25.2	24.0
DCF/debt (%)	(1.5)	(6.2)	(5.2)	(6.3)

*Standard & Poor's adjusted. FFO--Funds from operations. DCF--Discretionary cash flow. e--Estimate. f--Forecast.

Business Risk: Excellent

Our "excellent" business risk profile assessment for Enexis continues to reflect the company's natural monopoly status in its license areas, its low-risk regulated electricity and gas distribution network businesses, and its high-quality network assets. These strengths are partly offset by regulatory tariff reset risk every three years and the company's exposure to incentive-based regulation that can impose challenging efficiency requirements.

The ACM's final tariff determination will result in a material downward adjustments of revenues in 2014. We understand, however, that Enexis challenged the regulator decision regarding the weighted average cost of capital set at 3.6% for the regulatory period 2014-2016 and the annual recovery of costs (the so called efficiency factor), with a likely outcome expected in September 2014. That said, we understand that Enexis is not making full use of the tariff room offered by the regulator in 2014.

Financial Risk: Modest

In our view, Enexis' "modest" financial risk profile reflects the company's stable and predictable operating cash flow during a regulatory period, but also its sizable capital expenditure program of about €1.5 billion during the next regulatory period for 2014-2016.

Under our base-case scenario, we anticipate that the company's Standard & Poor's-adjusted FFO-to-debt ratio will be about 26% in 2014 and 2015. Our base case does not yet reflect the impact on credit metrics deriving from the announced potential exchange of regional energy networks with Alliander.

Liquidity: Strong

We assess Enexis' liquidity as "strong" as defined in our criteria, supported by our view that Enexis' liquidity sources will exceed its funding needs by over 1.5x in the next 12 months. Furthermore, Enexis has well-established and solid relationships with banks, generally high standing in the credit markets, and typically very prudent risk management.

Principal Liquidity Sources	Principal Liquidity Uses
We estimate that Enexis' liquidity sources over the next 12 months will exceed €1.6 billion, as of Dec. 31, 2013, including: • Unrestricted cash and short-term marketable securities of close to €145 million. • Access to an undrawn €450 million committed credit facility expiring in June 2015. We believe that Enexis will maintain substantial headroom under the financial covenants in its credit facility documentation. • Annual FFO of about €460 million.	For the same period, we estimate that liquidity uses will be €560 million, including: • Working capital of about €9 million. • Capital expenditures of about €450 million. • Dividend payments of about €100 million.

Other Modifiers

We apply a one-notch downward adjustment for our comparable ratings analysis, primarily reflecting credit metrics that are at the low end of what we see commensurate with a "modest" financial risk profile.

Government Influence

As stipulated by the Dutch Independent Network Operation Act, electricity and gas distribution network operators in the Netherlands must be publicly owned. As such, we rate Enexis using our government-related entity (GRE) methodology. The 'AA-' rating on Enexis is based on the company's stand-alone credit profile, which Standard & Poor's assesses at 'aa-', and on our opinion that there is a "moderate" likelihood that Enexis' owners would provide timely and sufficient extraordinary support in the event of financial distress. In accordance with our criteria for GRE, we base our view our assessment of Enexis':

- "Important" role, given Enexis' strategic importance to its province and municipality owners as the monopoly provider of gas and electricity distribution services in its license areas; and
- "Limited" link to its owners, given the dispersed ownership structure. Enexis' owners are the provinces of Noord Brabant (31%), Overijssel (19%), Limburg (16%), Groningen (6%), and Drenthe (2%), as well as other provinces and 116 municipalities in the region.

Ratings Score Snapshot

Corporate Credit Rating

AA-/Stable/--

Business risk: Excellent

- **Country risk:** Low

- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Modest

- **Cash flow/Leverage:** Modest

Anchor: aa

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Stand-alone credit profile : aa-

- **Related government rating:** AA+
- **Likelihood of government support:** Moderate (no impact)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Methodology for Linking Short-Term and Long-Term Ratings for Corporate, Insurance, and Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Related Research

- Dutch Electricity And Gas Utility Enexis Upgraded To 'AA-' On Stronger Credit Metrics; Outlook Stable, Aug. 15, 2013

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	**aa**	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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