Moody's Investors Service

Rating Action: **Moody's assigns Aa3 issuer ratings to Enexis Holding N.V.and Enexis B.V.; stable outlook**

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First-time rating

Prague, December 09, 2009 -- Moody's Investors Service has today assigned an Aa3 long-term senior unsecured issuer ratings to Enexis Holding N.V. ("Enexis") and its fully owned operating subsidiary Enexis B.V.. This is the first time that Moody's has assigned a rating to both companies. The outlook for the rating is stable.

The Aa3 rating assigned to Enexis and its subsidiary, which represents 99% of group assets, reflects a combination of (i) low risk business profile of its domestic electricity and gas regulated distribution network operations, which generate over 90% of the group's earnings and cash flows, (ii) well defined, transparent, but strongly cost efficient-oriented Dutch regulatory framework, (iii) conservative financial profile reflected by strengthened capital structure and very solid liquidity position and (iv) a two-notch uplift for potential support from its owners.

The low business risk profile reflects Enexis' strategic focus on core regulated activities based on fully owned distribution network assets. In Moody's view, a well defined, transparent and cost efficient-oriented Dutch regulatory framework allows network companies to earn an adequate return on their regulated asset base. The inflation and efficiency gain (CPI-X) adjusted revenue cap-based regulation eliminates exposure to volume risk, providing a stabilising factor to Enexis' financial performance.

In its assessment of Enexis, Moody's incorporated the expected positive impact of the measures taken by the company's owners and management that occurred during the unbundling process implemented during 2009 to separate Enexis from the Essent group, whose unregulated operations were sold to RWE. As a result the capital structure and liquidity position of the company significantly strengthened, mainly due to: (i) an equity injection of EUR350 million provided by the owners; (ii) the use of proceeds from the sale of the company's high voltage grid to the transmission operator TenneT TSO to decrease leverage; (iii) the favourable maturity of the EUR1,800 million long-term shareholder loan, with the possibility to convert the EUR350 million tranche with the longest maturity into equity in case the minimum ratios required by the regulator are jeopardised; (iv) the successful arrangement of a EUR550 million back-up revolving credit facility that further strengthens Enexis' liquidity position; and (v) the successful termination of the majority of the cross-border lease agreements, thereby eliminating significant financial exposure.

"Following the measures taken during the unbundling process, Moody's expects Enexis' credit metrics to strengthen" notes Richard Miratsky, VP - Senior Analyst at Moody's Infrastructure Finance Team. "If Enexis comfortably exceeds on a consistent and sustainable basis the credit metrics established within its financial policy (FFO Interest coverage above 4x and FFO/Net Debt above 20%), the current rating might come under positive pressure in the medium term" adds Richard Miratsky. To remain safely positioned within the current rating category, Moody's would expect Enexis to achieve on sustainable basis credit metrics commensurate with FFO Interest coverage at or above 3.5x and FFO/Net Debt above 15%. If the debt protection metrics decline substantially below these levels, mainly as a result of an increase in leverage significantly above the forecast levels or a weakening of cash flow generation due to an increase in operating expenses, the rating might come under downward pressure.

Enexis' current strong liquidity position is supported by solid cash flow generation, a favourable maturity profile of the long-term shareholder loan, and sizeable headroom under the newly negotiated back-up credit facility. The capex plan, which represents major cash outflows and is forecast to gradually grow within the next five years from the current EUR300 million, is expected to be fully covered from the company's own-generated cash flows. The very solid liquidity position is further supported by the company's dividend policy that was outlined by the shareholders at 30% of net income until 2010 and 50% thereafter.

The structure of the shareholder loan, provided to Enexis Holding N.V. through an SPV fully owned by shareholders, was on-lent to the operating company (Enexis B.V.) via an intra-company loan under substantially and materially the same terms as the shareholder loan. Although the EUR550 million revolving overdraft facility, arranged with a pool of local and international banks, is provided directly to Enexis B.V. (operating company), and future bond issuances, aimed at refinancing the shareholder loans at maturity, are planned to be issued at the holding company level (Enexis Holding N.V.), Moody's does not notch down Enexis' rating for structural subordination. Moody's expects the currently un-drawn overdraft credit line to be utilised mainly as a back-up facility to balance seasonal swings in working capital needs. Furthermore, Moody's expects the intra-company loan between the holding and the subsidiary to remain an integral part of the group's financial policy. However, if additional external financing were to be arranged in the future directly at the Enexis B.V. level without suitably mitigating arrangements, which Moody's understands is not the management's intention, Moody's view on structural subordination would need to be reconsidered.

Given its 100% ownership by Dutch provinces and municipalities, Enexis falls within the scope of Moody's rating methodology for government-related issuers (GRIs). In accordance with the methodology, Enexis' rating incorporates uplift for potential support from its owners to its standalone credit quality. This is expressed by Moody's as a Baseline Credit Assessment (BCA) of 6 (on a scale of 1 to 21, where 1 represents the lowest risk and 6 is equivalent to an A2). Although the ownership is relatively fragmented among approximately 140 provinces and municipalities, Moody's perceives the shareholders' ability to act in conjunction with one another as relatively high, considering that the four largest provinces together have over a 70% ownership share. Furthermore, the medium level of support incorporates Moody's view that the legal and political mechanisms established in Netherlands, including the legal requirement of public ownership of energy network assets, increases the probability of systemic support to strategically important network operators in case of extraordinary need. In addition to the medium probability of systemic support, the two-notch uplift from the BCA further incorporates Moody's assessment of credit quality of Enexis' shareholders, as well as high medium dependence based on exposure of Enexis' and its owners to common drivers of credit quality considering that Enexis derives almost all of its revenues domestically.

The principal methodologies used in rating Enexis were Moody's Regulated Electric and Gas Networks, published in August 2009 and "The Application of Joint Default Analysis to Government Related Issuers", published in April 2005. These methodologies are available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Rosmalen, Netherlands, Enexis is the owner and operator of approximately one third of Netherland's electricity and gas distribution network with EUR1,342 million revenues generated in the year ended December 2008.

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