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CREDIT OPINION
10 April 2017

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 rating affirmation

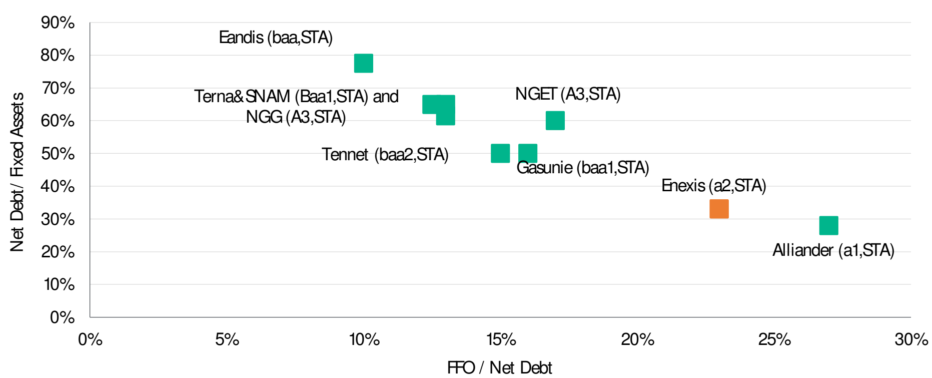
Summary Rating Rationale

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 a modest decline from 2017 onwards, a reflection of (1) lower returns; but also (2) increased investments, primarily related to the roll-out of the smart meter programme; and (3) a €359 million payment made to peer network Alliander N.V. (Alliander, Aa2 stable) as part of an asset swap arrangement, concluded on 1 January 2016. Nevertheless, financial metrics will remain strong in the context of its wider European regulated network peers.

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, the largest of which is the Province of Noord-Brabant with around 31% holding, 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 after asset swap with Alliander in 2016
- » Modest leverage compared with wider peer group supports
- » Two notches of rating uplift for potential support from local 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.

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 determination with allowed returns decreasing further; (2) the ongoing capital requirements with additional smart metering investments; and (3) the weakening of Enexis's financial profile as a result of net payment to peer network operator Alliander under the 2016 asset swap transaction.

Factors that Could Lead to a Downgrade

A rating downgrade could be triggered by Enexis failing to maintain the following minimum credit metrics on a sustainable basis: funds from operations (FFO)/net debt ratio in the mid to high teens, and leverage measured by net debt/fixed assets no higher than the low fifties, both in percentage terms.

The Aa3 rating could also be subject to downward pressure if our view of the credit profile of the municipalities and provinces owning Enexis or our assessment of extraordinary support changes.

Key Indicators

Exhibit 2

Strong financial metrics despite debt-funded asset swap payment affecting FY2016

	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012	12/31/2011
FFO Interest Coverage	8.2x	6.4x	7.8x	5.8x	6.8x	6.5x
Net Debt / Fixed Assets	33.1%	28.3%	28.7%	30.6%	32.6%	31.2%
FFO / Net Debt	25.5%	31.4%	33.8%	31.9%	31.8%	33.5%
RCF / Net Debt	20.6%	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 by the Dutch 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 distribution runs from January 2017 to December 2021. In September 2016, ACM published its final determination for the period, which includes a gradual reduction in the allowed return to 3.0% (pre-tax, real) by 2021 from 4.0% at the start of the current regulatory period in 2017 (see also Moody's sector-in-depth comment on the draft proposal 'Dutch Regulated Energy Networks: Lower allowed return poses fresh challenge', published in May 2016).

Exhibit 3

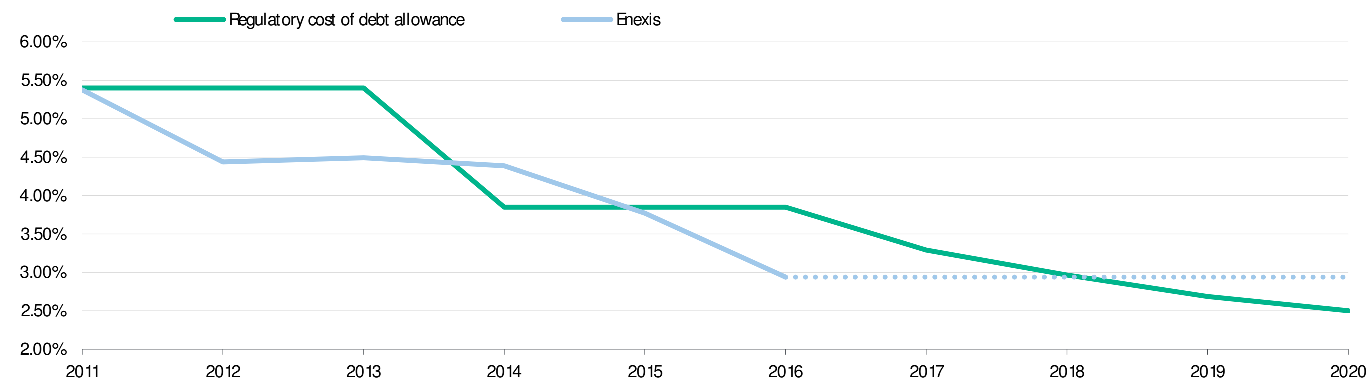
Allowed return for Dutch network operators shows declining trend

WACC - Dutch DSOs	2008-2010	2011-2013	2014-2016	2017	2018	2019	2020	2021
risk free rate	4.00%	3.95%	2.50%	2.20%	1.90%	1.67%	1.50%	1.33%
risk premium	0.80%	1.50%	1.20%	0.95%	0.91%	0.87%	0.86%	0.81%
transaction costs	0.00%	0.00%	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%
Nominal Cost of Debt	**4.80%**	**5.45%**	**3.85%**	**3.29%**	**2.96%**	**2.68%**	**2.50%**	**2.29%**
nominal risk free rate for CoE	4.00%	3.95%	2.50%	1.28%	1.28%	1.28%	1.28%	1.28%
market risk premium	5.00%	5.00%	5.00%	5.05%	5.05%	5.05%	5.05%	5.05%
asset beta	0.41	0.42	0.35	0.42	0.42	0.42	0.42	0.42
equity beta	0.86	0.81	0.61	0.74	0.74	0.74	0.74	0.74
Nominal Cost of Equity	**8.30%**	**8.00%**	**5.55%**	**5.02%**	**5.02%**	**5.02%**	**5.02%**	**5.02%**
gearing assumption	60%	55%	50%	50%	50%	50%	50%	50%
tax rate	25.5%	25.5%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Nominal WACC pre-tax	**7.3%**	**7.8%**	**5.6%**	**5.0%**	**4.8%**	**4.7%**	**4.6%**	**4.5%**
inflation	1.75%	1.55%	2.00%	0.90%	1.03%	1.16%	1.29%	1.42%
Real WACC pre-tax	**5.5%**	**6.2%**	**3.6%**	**4.1%**	**3.8%**	**3.5%**	**3.3%**	**3.0%**

Source: ACM, Moody's calculations

The reduction in allowed returns is less material than for the previous regulatory period where it fell from 6.2% to 3.6% (both pre-tax, real) in gradual steps over 2014-16. Enexis has demonstrated its ability to operate within the bounds of the regulatory return allowance, and to fund comfortably within the cost of debt embedded assumed by the regulator. We expect Enexis's cost of external debt to remain below the allowed cost until 2018, supported by recent bond issuance, including €500 million 0.875% 10-year notes issued in April 2016 to pre-pay two shareholder loans of around €600 million. Cost of debt could decrease further with ongoing funding of required investments and the refinancing of maturing debt in 2019-20.

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



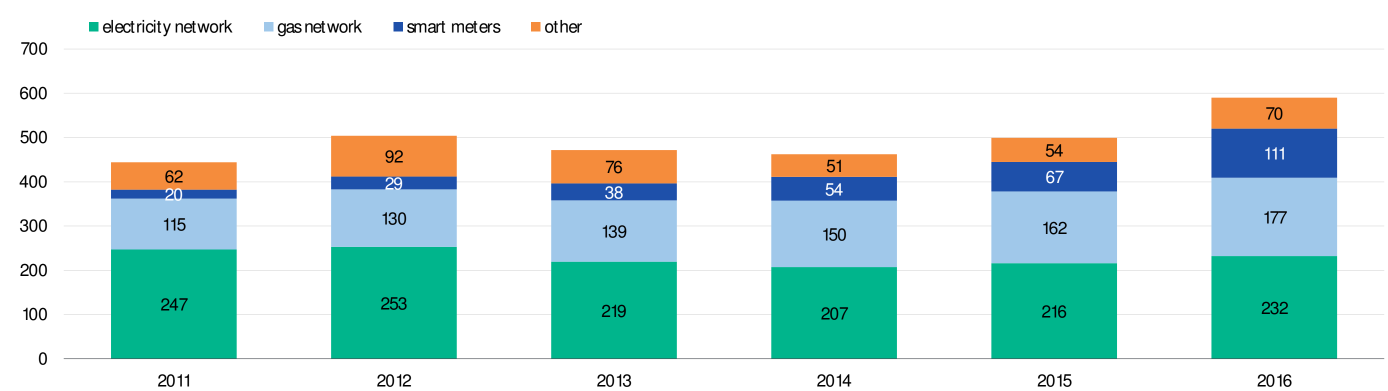
Note: Moody's estimates exclude Enexis's refinancing needs in 2019-2020 and any new funding required to support the increase in investments
Source: ACM, Enexis annual reports and Moody's estimate

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 at 2.13% for electricity and 1.54% for gas annually for Enexis (previously around 5% and 7% respectively). This results in an incremental decline in the portion of revenue that will cover operating costs. While base costs are reset on the basis of average costs in the period 2013-2015, resulting in an increase in the overall revenue allowance for 2017-21, and the X-factor also incorporates the decrease in the allowed returns, operating efficiency targets may still prove challenging.

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

Total investment in 2016 were considerably higher than the annual average due to the Alliander asset swap payment (excluded from Exhibit 5), as part of which 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.

Endinet's business serves a larger number of customers (108,000 electricity and 398,000 gas connections) than Enexis's assets transferred to Alliander (combined 79,000 electricity and 223,000 gas connections). Therefore, Enexis compensated Alliander by paying €359 million. With the payment being debt-funded, financial metrics for 2016 declined slightly compared with previous years, but not materially changing Enexis's overall credit quality.

Modest leverage compared with peers supports strong stand-alone credit quality

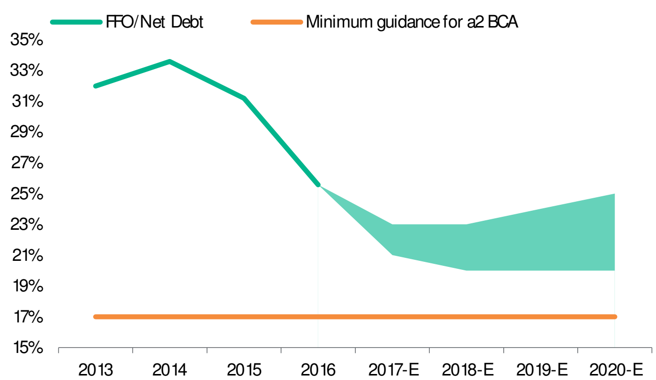
Like its closest peer Alliander, Enexis exhibits a strong financial profile with modest financial leverage compared with the wider European peer group of energy network companies. Over the medium term, we expect that Enexis's metrics will weaken with (1) the reduction in allowed returns (itself a reflection 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 made in 2016.

Nevertheless, overall leverage will remain modest in the wider European context. We forecast Enexis will 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%, and 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



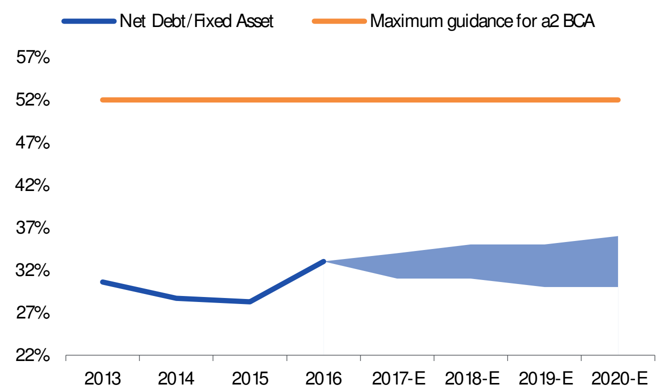
Note: [1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; [2] As of 12/31/2016; [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions 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 12/31/2016; [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 (1) strong cash flow generation from its regulated monopoly network activities; (2) approximately €198 million cash and liquid deposits as of December 2016; and (3) an undrawn €600 million revolving credit facility (RCF) maturing in June 2021. In December 2016, Enexis also established a €1 billion commercial paper programme, which the company expects to use for short-term liquidity needs.

Enexis's repayment profile is manageable with its last outstanding shareholder loan of €350 million maturing in 2019 and a €500 million bond maturing in 2020. Enexis repaid €500 million term loans and €82 million perpetual shareholder loans over 2016.

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. 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 136,900 km of electricity cable and 46,200 km of gas pipelines, delivering electricity to approximately 2.8 million customers and gas to 2.3 million customers.

Enexis is fully owned by Dutch provinces and municipalities, with the largest owners being the provinces of Noord Brabant (31%), Overijssel (20%), Limburg (16%), Groningen (7%) and Drenthe (2%). The remaining 24% stake is owned by 100 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 March 2017.

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 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 12/31/2016		Moody's 12-18 Month Forward View as of April 2017 [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)	7.4x	Aa	7x - 9x	Aa
b) Net Debt / Fixed Assets (3 Year Avg)	30.1%	Aa	31% - 34%	Aa
c) FFO / Net Debt (3 Year Avg)	29.8%	Aa	22% - 25%	A
d) RCF / Net Debt (3 Year Avg)	23.5%	Aa	17% - 20%	A
Rating:				
Indicated Rating from Grid Factors 1-4		Aa3		A1
Rating Lift		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				n/a
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.

Enexis Aa3 rating incorporates a two-notch uplift from its stand-alone credit quality, expressed as a BCA of a2, reflecting the likelihood of extraordinary financial support being provided by its owners, the largest of which is the Province of Noord-Brabant with around 31% holding, if this were ever required. Although ownership of Enexis is relatively fragmented among 5 provinces and 100 municipalities, our assumption of strong support reflects (1) the importance of Enexis's network operations for the regional economy; (2) the fact the four largest provinces together hold 74% of the company's shares; and (3) the strong governance framework in the Netherlands with oversight by the national government.

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

Ratings

Exhibit 9

Category	Moody's Rating
ENEXIS HOLDING N.V.	
Outlook	Stable
Issuer Rating -Dom Curr	Aa3
Senior Unsecured -Dom Curr	Aa3
ST Issuer Rating -Dom Curr	P-1
ENEXIS B.V.	
Outlook	Stable
Issuer Rating -Dom Curr	Aa3

Source: Moody's Investors Service

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