

Research Update:

Dutch Distribution Network Operator Enexis 'A' Rating Placed On CreditWatch Positive On Strong Earnings

Primary Credit Analyst:

Karin Erlander, London (44) 20-7176-3584; karin_erlander@standardandpoors.com

Secondary Contact:

Mark J Davidson(UK), London (44) 20-7176-6306; mark_j_davidson@standardandpoors.com

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Overview

- Dutch electricity and gas distribution network operator Enexis Holding N.V. reports a 40% increase in operating profit for the first six months of 2011 due to higher tariffs, cost savings, and the consolidation of Intergas.
- We consider that the improvement is likely to be sustainable due to approved tariffs through 2013, and a potential postponement of investments, resulting in reduced capex in the near term.
- We are therefore placing our 'A' long-term corporate credit rating on Enexis on CreditWatch positive.
- The CreditWatch placement reflects our view that higher revenues and cash flow generation is likely to result in a sustainable strengthening of Enexis' credit metrics.

Rating Action

On Aug. 30, 2011, Standard & Poor's Ratings Services placed on CreditWatch with positive implications its 'A' long-term corporate credit ratings on Dutch electricity and gas distribution network operator Enexis Holding N.V. and subsidiary Enexis B.V. (jointly Enexis).

Rationale

The CreditWatch placement follows the publication of Enexis' interim report for the first half of 2011, which indicates a significant improvement of revenues and cash flow generation due to higher tariffs, cost savings, and the consolidation of its Intergas unit. Enexis' reported revenues and operating profit for the first half of 2011 increased by 10% and 40%, respectively, compared with the same period in 2010.

We believe that Enexis will be able to sustain this level of earnings given the approved regulated tariffs through 2013 and the company's ongoing cost-savings program. We also believe that Enexis' capital expenditures (capex) plan and investments relating to the consolidation of the Dutch distribution network sector are likely to be lower in the near term than we previously assumed, thereby reducing the company's funding needs in the near term. For example, we understand that the implementation of smart meters in The Netherlands has been postponed for legislative reasons. Looking ahead, we could raise the rating to 'A+' if we assess that an anticipated improvement in

Enexis' credit metrics arising from the aforementioned developments is sustainable, evidenced by Enexis' Standard & Poor's-adjusted funds from operations (FFO) to debt remaining above 20%.

The ratings on Dutch electricity and gas distribution network company Enexis Holding N.V. and its subsidiary Enexis B.V. continue to reflect our view of their low-risk regulated electricity and gas distribution network businesses, high quality network assets, and natural monopoly status in their license areas. The majority of their activities, including their electricity and gas tariffs, are regulated by the Dutch Ministry of Economic Affairs and the Dutch regulator, Energiekamer.

The 'A' rating on Enexis is based on the company's stand-alone credit profile, which we assess at 'a', and on our opinion that there is a "moderate" likelihood that its owners would provide timely and sufficient extraordinary support in the event of financial distress.

In accordance with our criteria for government-related entities, our view of a "moderate" likelihood of extraordinary support is based on our assessment of Enexis':

- "Important" role, given its strategic importance to the province and municipality owners, as the monopoly provider of gas and electricity distribution services in its license areas; and
- "Limited" link to the 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 120 municipalities in the region.

Liquidity

We view Enexis's liquidity as adequate under our criteria. Projected sources of liquidity exceed projected uses by about 1.7x in the next 12 months. Liquidity sources mainly comprise operating cash flow and available bank lines. Projected uses mainly comprise capex, and dividends. We forecast that the aforementioned ratio will decrease over 2012, however, taking into account the €450 million debt maturity that falls due in September 2012. That said, we think that stronger-than-forecast cash flows from operations could mitigate the decrease.

On June 30, 2011, Enexis had €301 million in cash and €450 million available on a fully undrawn committed credit line that expires in 2015. At the same time, Enexis had no short-term debt.

CreditWatch

The CreditWatch placement reflects our view that Enexis will be able to strengthen its financial risk profile on a sustainable basis. We believe that an increase in earnings and operating cash flows is likely through 2013, due to pre-approved regulatory tariffs and ongoing cost savings. We also believe it likely that the company's debt-financed capex and investments plans will be

lower in the near term than we had previously anticipated due to the postponement of investments.

We would consider a one-notch upgrade to 'A+' if we assess that the company's financial risk profile has strengthened on a sustainable basis, particularly if the company is able to sustain an adjusted FFO-to-debt ratio of more than 20%, while maintaining an unchanged business risk profile. We aim to resolve the CreditWatch placement within the next month following discussions with management.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

Criteria:

- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Enxsis Holding N.V.		
Enxsis B.V.		
Corporate Credit Rating	A/Watch Pos/--	A/Stable/--

Additional Contact:

Infrastructure Finance Ratings Europe;InfrastructureEurope@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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