SUMMARY OF THE RATING REPORT

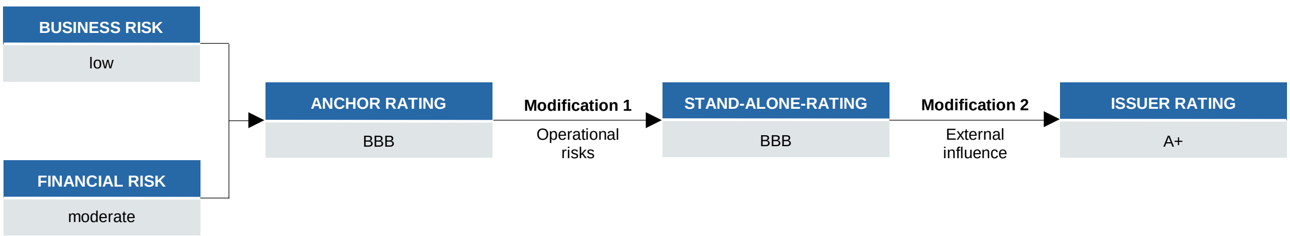
Vitens N.V.

29 May 2017

EULER HERMES Rating

Issuer Rating

Vitens N.V.		29 May 2017	A+
		Issuer rating	
		Outlook	stable
Industry	Regulated Water Utilities	2016 Revenue	€ 349.4m
		2016 Employees	1,399



BUSINESS RISK	low

- Regional monopoly and protective regulation
- Regulated water tariffs
- Highly predictable cash flows
- Strong operational performance
- Favourable asset ownership model

OPERATIONAL RISKS	- 0

- Operational risk profile consistent with the anchor rating, no modification required.

FINANCIAL RISK	moderate

- High financial leverage
- High but predictable capex requirements
- Limited profit margins (tariff regulation)
- High financial flexibility

EXTERNAL INFLUENCE	± 4

- Very high likelihood of extraordinary government support due to municipal ownership, high degree of public importance and very high sovereign credit quality

Key financial ratios *	2011	2012	2013	2014	2015	2016
EBITDA-Margin (%)	40.1	44.5	46.4	46.5	47.6	45.8
ROCE (%)	5.8	5.2	5.4	5.4	6.4	5.6
Equity ratio (%)	23.7	22.9	25.6	24.6	27.5	28.1
Debt to equity ratio (%)	72.7	73.0	70.4	70.9	67.8	66.6
Total liabilities / EBITDA	7.0	7.5	7.1	7.2	6.7	7.1
Net financial liabilities / EBITDA	5.8	6.1	5.8	5.7	5.3	5.5
EBIT interest coverage	1.7	1.7	1.9	2.2	2.5	2.4
EBITDA interest coverage	3.8	3.9	4.3	5.1	4.9	5.1

* adjusted on the basis of EHR's analytical methodology

Rating Rationale

Euler Hermes Rating assigns an A+ issuer credit rating to Vitens N.V. The underlying factors are a combination of a low business risk profile, a moderate financial risk profile and a four-notch uplift for implied governmental support. We expect the rating to remain stable over the next twelve months.

Low business risks due to regional monopoly, highly predictable cash flows and protective regulation

In our view Vitens is exposed to a low business risk profile. Due to its regional monopoly position and virtually constant water consumption rates within its supply area Vitens enjoys overall low demand volatility, strong visibility in revenues and sustainable cash flows. Further supportive factors include a reliable, well-established regulatory regime within the Dutch water sector, the favourable asset ownership model and long-dated protective legislation against the privatisation of drinking water services so that supply concessions are only given out to government-owned companies. We also think, that Vitens pursues a low-risk strategy which adequately takes account of statutory regulations and responsibilities set out in the Dutch Drinking Water Supply Act. Moreover we believe that the strategy is well designed to ensure that the company maintains its leading benchmark position within the Dutch water sector and even improve its external credit reputation.

Moderate financial risks due to high financial leverage, limited profit margins but stable earnings and high financial flexibility

In our view Vitens is exposed to a moderate financial risk profile. Overall, we appreciate that Vitens has a long track record of recurring, stable and positive earnings while maintaining comparatively low and virtually constant drinking water tariffs and operating costs. We expect the pending adjustment of drinking water tariffs to have an only temporary and minor effect on the credit metrics, as Vitens has been able to constantly hold its operating performance during recent years as a result of process automation and staff-related efficiency measures. Factors constraining our assessment are the consistently high debt levels and generally weak credit metrics caused by the ongoing maintenance capex and limited profit margins (WACC condition). Nevertheless, we also note that the level of long-term financial debt has been slightly reduced in recent years due to the utilization of recurring free cash flows and Vitens' ability to fully cover its operating and capital expenditures from internal cash flow generation. Against the background of the steady earnings potential, together with the low business risk profile for the drinking water sector, we also believe that Vitens is able to comfortably sustain high capex-requirements and high debt levels over the long term. Considering the broad external funding base, preferred and sustained access to new funding, unused credit facilities, low funding costs and additional funding potential from dividend cuts or municipal loans/guarantees we also think that Vitens has a generally high financial flexibility.

Modification for implied governmental support: +4 Notches

In our opinion, Vitens has adequate structures, processes and systems in place to achieve its strategic objectives and to handle its operational risks appropriately and in consistence with the rating level. Due to its government-related status, however, we adjust Vitens' stand-alone rating by 4 notches representing our expectation for a very high likelihood of extraordinary government support in situations of financial distress. The underlying factors are a combination of Vitens' strong link to municipalities and provinces, the very high public importance of water utilities and the very high sovereign credit quality of the Netherlands.

Rating History

	12 December 2014	29 May 2017
Issuer rating	A+	A+
Stand-alone rating	BBB	BBB
Outlook	stable	stable

Company

Largest of ten suppliers for drinking water in the Netherlands

Vitens N.V. ("Vitens") is a leading supplier of drinking water in the Netherlands. Its history goes back to the late 19th century. Nowadays, the focus is on improving the extraction, purification and distribution of water. At the end of 2016, the group employed 1,399 people and generated revenues totalling € 349.4m. With 2.6 million connections serving 5.7 million customers, Vitens supplies most of the central and northern part of the Netherlands through 93 production plants in the provinces of Flevoland, Friesland, Gelderland, Utrecht and Overijssel. With a share of 32 % of total connections in the Netherlands, Vitens is the largest of ten publicly owned supply companies, followed by Braband Water (14 %), Evides (13 %) and PWN (10 %).

Negligible share of non-core activities

In addition to its core business, Vitens engages in international development projects through its affiliate *Vitens Evides International* ("VEI"). VEI is a joint venture between Vitens and Evides Waterbedrijf with the aim of improving drinking water and sanitary facilities in urban areas in South America, South-East Asia and Africa. These non-profit projects are funded through governmental grants or public and private donations.

Executive board comprised of two members

Vitens' executive board is comprised of two members. Ms L.C.A. Declercq (Chairperson) is currently the only member, after Mr W.H.J. Odding left Vitens in May 2017. The vacant management position will be staffed by the end of 2017. The group has a clear corporate governance set-up with an independent executive board, a supervisory board consisting of three permanent committees and a shareholder committee, which convenes at least twice a year.

Vitens N.V. is a government related entity jointly held by 5 provincies and 105 municipalities

Vitens N.V. has the legal status of a public limited company. The provinces of Flevoland, Friesland, Gelderland, Utrecht and Overijssel, and most municipal authorities in Vitens' service area are shareholders of Vitens. More specifically the 5 provincial authorities and 105 municipal authorities hold the share capital (€ 5.8m), where the 11 largest shareholders account for a combined 51.4%. With respect to our methodology, we consider Vitens N.V. as a government-related entity that we rate based on the consolidated financial statements of Vitens Group and under consideration of potential governmental support.

Disclaimer

This report represents a highly abridged summary of the complete rating report issued on 29 May 2017. The full rationale for the rating notation is given in the complete rating report that was presented to the company and has not been published by Euler Hermes Rating GmbH.

The rating request was submitted by Vitens N.V. (client) on 02 May 2017. The company was visited on 10 May 2017. This rating report was presented to the client on 29 May 2017, meaning that the rating process has now been concluded. The notation proposal and the report on which it was based were reviewed by the Rating Committee on 29 May 2017 and approved in their current form. If this rating is not made public, the rating refers to this date. If the rating assessment is published on the rating agency's website (www.eulerhermes-rating.com), it will be followed by a subsequent one-year monitoring process. During this period, the company and the environment in which it operates remain under observation. The rated company is subject to unrestricted disclosure obligations during this period. Any change in the rating agency's assessment will result in a change in the published rating, meaning that the rating as shown on the internet represents the current rating assessment at all times. Continued publication after the expiry of the monitoring period is contingent upon a follow-up rating being conducted.

The client is solely and exclusively liable for any errors or omissions in the documents and information supplied openly and willingly in response to our requests for information. The client has reviewed the rating report and confirms that all of the information which it contains is correct and complete in all significant respects, that no major aspects have been concealed and that any forward-looking statements which it may include are based on plausible, verifiable and current data and have been prepared by the client with the diligence of a prudent businessman. However, the client cannot be held liable if actual results differ from the forward-looking statements, in particular the projections, presented in this document. Changes in the economic environment and unforeseen events may impair the validity of the forward-looking statements and projections.

The rating report may not be construed as constituting a recommendation to participate in certain facilities. All recipients of the information should conduct their own independent analyses, credit assessments and other reviews and evaluations which are customary and necessary to reach a final decision about the participation in certain facilities. It should be noted that the summaries of contracts, legislation and other documents included in the report are no replacement for examination of the corresponding full texts. As of the date on which this information is published, it is not possible to guarantee that the information has not changed since being collected and that all information provided is still valid. The client is under no obligation to update the information.

The publication of this rating report may be prohibited by law in certain jurisdictions. Euler Hermes Rating GmbH therefore requests that any persons who gain possession of this information enquire about and comply with any such restrictions. Euler Hermes Rating GmbH does not assume any liability of any kind towards anyone with respect to the dissemination of this rating report in any jurisdiction whatsoever.

The client's management has submitted to Euler Hermes Rating GmbH a written letter of representation.

We have prepared this report to the best of our abilities and knowledge.

Euler Hermes Rating GmbH

Hamburg, 29 May 2017

EULER HERMES Rating

Analysts

Matthias Peetz, Senior Analyst and Project Manager
Torsten Schellscheidt, Senior Analyst

Rating committee

Holger Ludewig, Director
Karl Holger Möller, Senior Analyst

Principal sources of information

- Reports on the consolidated financial statements for 2014, 2015 and 2016
- Extracts from internal reports
  (e.g. liquidity planning, analysis of bank liabilities)
- Management interview
- Benchmark analysis of the Dutch drinking water industry
- Drinking Water Act / Water Supply Act
- Strategy paper, corporate planning and capex budget 2017, 2018, 2019

Rating methodology

Issuer rating of Euler Hermes Rating GmbH of May 2016
(http://www.ehrg.de/seiten/Methodology2016.pdf)

EULER HERMES Rating

Appendix 1: Rating Categories

Category	Definition
AAA	In the opinion of the rating agency, AAA rated entities demonstrate excellent credit quality and the lowest default risk.
AA	In the opinion of the rating agency, AA rated entities demonstrate very high credit quality with a very low default risk.
A	In the opinion of the rating agency, A rated entities demonstrate high credit quality with a low default risk.
BBB	In the opinion of the rating agency, BBB rated entities demonstrate highly satisfactory credit quality with a moderate default risk.
BB	In the opinion of the rating agency, BB rated entities demonstrate slightly satisfactory credit quality with a slightly increased default risk.
B	In the opinion of the rating agency, B rated entities demonstrate low credit quality with an increased default risk.
CCC	In the opinion of the rating agency, CCC rated entities demonstrate very low credit quality with a very high default risk.
CC	In the opinion of the rating agency, CC rated entities demonstrate very low credit quality, an event of default is very likely.
C	In the opinion of the rating agency, C rated entities demonstrate very low credit quality, an event of default is imminent.
D / SD	D rated entities have defaulted, as defined by the credit rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
PLUS (+) **MINUS (-)**	Rating notations from AA to CCC are modified by a PLUS (+) or MINUS (-) where required in order to show their relative position within the rating category.

Appendix 2: Definition of financial ratios

Earnings potential and profitability

EBITDA margin

EBITDA margin
Numerator
EBITDA
Denominator
Total revenues

Returns

ROCE
Numerator
Adjusted operating result (= EBIT)
Denominator
Net financial liabilities + economic Equity (= capital employed)

Total return on capital
Numerator
Adjusted operating and financial result + Interest expense
Denominator
Adjusted total capital

Cash flow return on investment

Cash flow return on investment (cash flow ROI)
Numerator
EBITDA
Denominator
Adjusted total capital

Capital structure and debt to equity ratio

Debt

Equity ratio
Numerator
Adjusted equity (= economic capital)
Denominator
Adjusted total capital

Debt to equity ratio
Numerator
Net financial liabilities
Denominator
Net financial liabilities + economic Equity (= capital employed)

Net financial liabilities

Net financial liabilities
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS/factoring transactions
- Cash and cash equivalents

Degearing potential

Total liabilities / EBITDA
Numerator
Total capital - economic capital (= total liabilities)
Denominator
EBITDA

Net financial liabilities / EBITDA
Numerator
Net financial liabilities
Denominator
EBITDA

Interest coverage

EBIT interest coverage
Numerator
Adjusted operating result (= EBIT)
Denominator
Interest expense

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expense