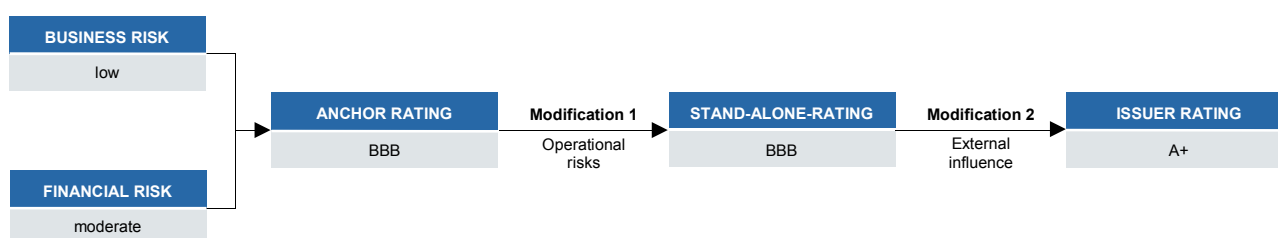


Issuer Rating

Vitens N.V.		29 May 2019	A+
		Issuer rating	
		Outlook	stable
Industry	Regulated Water Utilities	2018 Revenues	€ 361.0m
		2018 Employees	1,392



BUSINESS RISK	low
<ul style="list-style-type: none"> Regional monopoly and protective regulation Regulated water tariffs Highly predictable cash flows Strong operational performance Favourable asset ownership model 	

OPERATIONAL RISKS	- 0
<ul style="list-style-type: none"> Operational risk profile consistent with the anchor rating, no modification required. 	

FINANCIAL RISK	moderate
<ul style="list-style-type: none"> High but sustainable financial debt levels High but predictable capex requirements Low but regulated profits (WACC guideline) High financial flexibility 	

EXTERNAL INFLUENCE	± 4
<ul style="list-style-type: none"> 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 *	2013	2014	2015	2016	2017	2018
EBITDA-Margin (%)	46.4	46.5	47.6	45.8	44.5	37.6
ROCE (%)	5.4	5.4	6.4	5.6	5.6	3.1
Equity ratio (%)	25.6	24.6	27.5	28.1	30.9	30.2
Debt to equity ratio (%)	70.4	70.9	67.8	66.6	63.3	63.7
Total liabilities / EBITDA	7.1	7.2	6.7	7.1	7.0	9.1
Net financial liabilities / EBITDA	5.8	5.7	5.3	5.5	5.4	6.9
EBIT interest coverage	1.9	2.2	2.5	2.4	2.4	1.4
EBITDA interest coverage	4.3	5.1	4.9	5.1	5.1	4.2

* adjusted on the basis of EHR's analytical methodology

Rating Rationale

Euler Hermes Rating confirms the A+ issuer credit rating of 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 subject 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 granted 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 to maintain its excellent external credit reputation.

Moderate financial risks due to high but sustainable debt levels, stable earnings and high financial flexibility

In our view Vitens remains exposed to moderate financial risks. Overall, we appreciate that Vitens has a long track record of recurring, stable and positive earnings while maintaining the lowest drinking water tariffs and operating costs across the Dutch drinking water sector. Factors constraining the stand-alone assessment are the consistently high (and currently rising) debt levels and generally weak credit metrics caused by the continuously high infrastructure funding needs and the imposed profit restrictions (WACC regulation). For 2018 and 2019 a substantial tariff reduction became necessary to compensate Vitens' customers for past excess profits. Along with slightly increased operating costs and rising investment volumes our expectation is that the tariff adjustment will temporarily impair the credit metrics of Vitens. Upcoming tariff increases (2020+) will bring the ratios back to their policy-induced long-term trend. Nevertheless, we also note that the level of long-term financial debt had been slightly reduced in recent years due to the utilization of accumulated excess cash flows. More importantly, Vitens' sustained and regulated earnings provide sufficient coverage for comfortably sustaining the sector specific high long-term debt levels in our view. 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 generally has a very high financial flexibility to meet all its financial obligations in a timely manner.

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	29 May 2018	29 May 2019
Issuer rating	A+	A+	A+	A+
Stand-alone rating	BBB	BBB	BBB	BBB
Outlook	stable	stable	stable	stable

Company

Largest of ten suppliers for drinking water in the Netherlands

Vitens N.V. (“Vitens”) is the largest supplier for drinking water in the Netherlands. The main strategic focus lies on a reliable and affordable drinking water supply, protecting and maintaining clean resources and offering highly convenient customer services. 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 by far the largest of ten publicly owned supply companies, followed by Brabant Water (15 %), Evides (13 %) and PWN (10 %). At the end of 2018, Vitens employed 1,392 people and generated revenues totalling € 361.0 million.

Negligible share of non-core activities

In addition to its core task, 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

Vitens’ executive board is comprised of two members. The positions are currently held by Ms Marike Bonhof and Mr Jelle Jan Hannema. 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 provinces and 92 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 92 municipal authorities hold the share capital (€ 5.8m), where the 7 largest shareholders account for a combined 51.7%. 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.

Appendix 1: Execution

Analysts

- Matthias Peetz, senior analyst / project manager
- Karl Holger Möller, senior analyst

Rating committee

- Dörte Mählmann, director
- Holger Ludewig, director

Principal sources of information

- Reports on the consolidated financial statements for 2016, 2017 and 2018
- Internal Treasury Report 2018
- Integrated Business Plan 2019, Financial Plan 2019-2021 and CAPEX budget 2019-2023
- Interim Management Report March 2019
- Management interview
- Benchmark analysis of the Dutch drinking water industry
- Drinking Water Act / Water Supply Act

Rating methodology

- Issuer rating of Euler Hermes Rating GmbH of 31 May 2016 (formally amended on 14 November 2017) (<https://www.ehrg.de/en/about-us/our-methods/>)

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Appendix 2: Rating categories

Category	Explanation
AAA	In the opinion of EHRG, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHRG, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHRG, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHRG, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHRG, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHRG, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHRG, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHRG, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHRG, C rated entities demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
PLUS (+) MINUS (-)	Rating categories 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 3: Definition of financial ratios

Earnings power

EBITDA margin

EBITDA margin	
Numerator	
	EBITDA
Denominator	
	Total revenues

Returns

ROCE	
Numerator	
	Adjusted operating result (= EBIT)
Denominator	
	Net debt + economic equity (= capital employed)

Return on total assets	
Numerator	
	Adjusted operating and financial result + interest expense
Denominator	
	Adjusted total assets

Cash flow return on investment

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

Capital structure

Indebtedness

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

Leverage
Numerator
Net debt
Denominator
Net debt + economic equity (= capital employed)

Net debt

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

Deleveraging potential

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

Net debt / EBITDA
Numerator
Net debt
Denominator
EBITDA

Interest coverage

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

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expenses

Disclaimer

Vitens N.V. (client and rated entity) engaged Euler Hermes Rating GmbH to conduct a rating on 02 May 2017. The company was visited on 24 May 2019.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 29 May 2019. This rating report was given to the client on 29 May 2019, thereby concluding the rating process.

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The rated entity is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The rated entity has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the rated entity cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

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Euler Hermes Rating GmbH

Hamburg, 29 May 2019