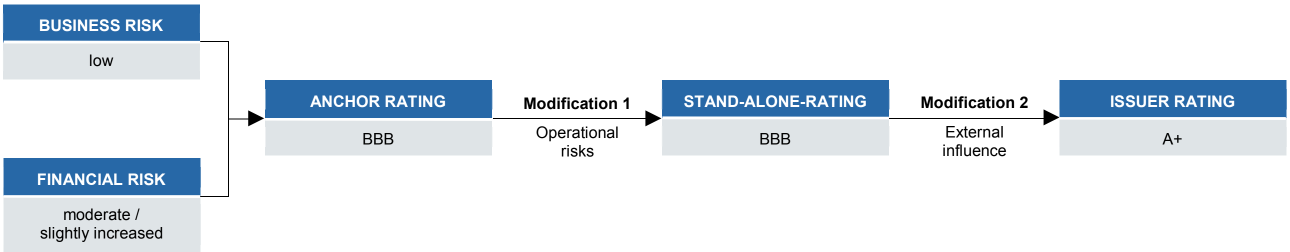
ScopeHamburg

Issuer Rating

Vitens N.V.		27 May 2021	A+
		Issuer rating	
		Outlook	stable
Industry	Regulated Water Utilities	2020 Revenues	€ 390.4m
		2020 Employees	1,443



BUSINESS RISK	low

- Regional monopoly and protective legislation
- 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 / slightly increased

- High and rising financial debt levels
- High but predictable capex requirements
- Low but regulated profits (WACC guideline)
- High financial flexibility

EXTERNAL INFLUENCE	± 4

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

Key financial ratios *	2018 actual	2019 actual	2020 actual	2021 plan	2022 plan	2023 plan
EBITDA margin (%)	37.6	37.7	39.3	37.5	36.6	38.7
ROCE (%)	3.1	2.8	3.3	3.1	2.2	2.4
Equity-to-total assets ratio (%)	30.2	29.2	29.4	28.7	27.6	27.3
Leverage (%)	63.7	64.5	64.5	65.4	67.0	67.7
Total liabilities / EBITDA	9.1	9.4	8.7	9.5	10.7	10.4
Net debt / EBITDA	6.9	7.0	6.6	7.3	8.3	8.1
EBIT interest coverage	1.4	1.4	1.8	1.9	1.5	1.8
EBITDA interest coverage	4.2	4.5	5.4	5.7	5.5	6.2

* adjusted on the basis of Scope Hamburg's analytical principles

Rating Rationale

Scope Hamburg confirms the A+ issuer credit rating of Vitens N.V. The underlying factors are a combination of a low business risk profile, a moderate to slightly increased financial risk profile and a four-notch uplift for implied governmental support. The rating outlook remains stable.

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

In our view Vitens is subject to a low business risk profile. Due to its regional monopoly position and almost 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. Accordingly, 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 an excellent external credit reputation and a leading benchmark position within the Dutch water sector.

Moderate to slightly increased financial risks due to high and rising debt levels, stable earnings and high financial flexibility

In our view, Vitens is exposed to moderate, yet slightly increasing, 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 as a result of high infrastructure funding needs and regulated profit restrictions (WACC regulation). As an effect, tariff reductions became necessary to align Vitens' operating profit with the currently constrained regulatory limits. Along with slightly increasing operating costs and rising investment volumes our expectation is that Vitens' credit metrics will remain impacted by these factors over the medium-term. Potential tariff increases and rising water consumption rates may bring the ratios back to their policy-induced long-term targets, also supported by the recently revised (more prudent) financial policy. To cover the sector specific high long-term funding needs and for meeting all financial obligations in a timely manner, Vitens has a broad external funding base with preferred and sustained access to new funding, unused credit facilities, low funding costs and additional funding potential from dividend suspension or municipal loans. Therefore, Vitens is subject to a generally very high financial flexibility in our view.

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.

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

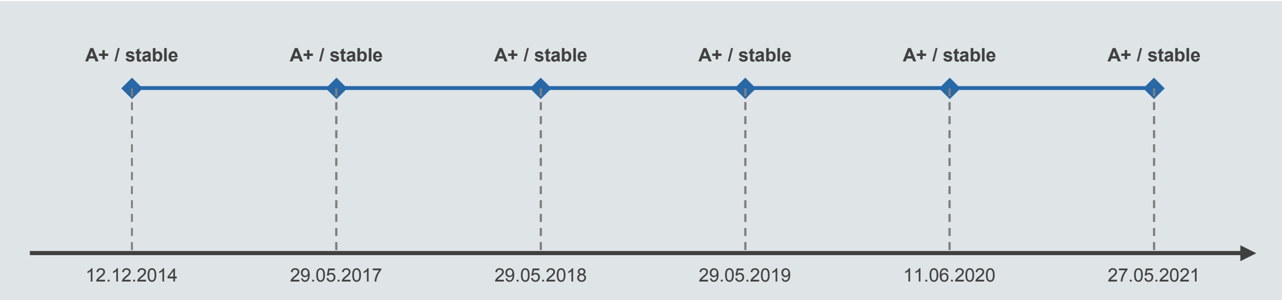
- Exceptional improvements of the capital structure and credit metrics with a substantial impact on the stand-alone credit profile (e.g. equity ratio > 50%; net debt/EBITDA < 3x)

Factors that could lead to a Downgrade

- Adverse regulatory changes with an impact on the regulated profit margins (WACC regime) or with an effort to soften protective legislation and market regulation (Dutch Drinking Water Act)
- Large exposure to non-regulated business activities
- Adverse changes to the shareholder structure (e.g. through privatization)
- Lasting deterioration of the Netherland's sovereign credit rating and its provincial governments and municipalities

Rating History

Vitens N.V.



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 5.8 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 Braband Water (15 %), Evides (13 %) and PWN (10 %). At the end of 2020, Vitens employed 1,443 people and had generated annual revenues totalling € 390.4 million.

Non-consolidated activities

In addition to its core task, Vitens engages in international development projects through *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 and are not included in Vitens' consolidated accounts.

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 issuer rating methodology, we consider Vitens N.V. as a government-related entity that we rate based on the consolidated financial statements of Vitens N.V. and under our guidance regarding the consideration of governmental support.

Appendix 1: Execution

Notice

This rating report is a commented version of the rating report that provides more detailed information on the factors underlying the rating notation and the outlook of the rating.

Analysts

- Matthias Peetz, Senior Analyst (lead analyst)
- Karl Holger Möller, Senior Analyst

Contact:

Tel.: +49 (0) 40/60 77 81 200
info@scopehamburg.com

Rating committee

- Dörte Mählmann, Director
- Kai Gerdes, Director

Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

[x] Solicited Rating

[ ] Unsolicited Rating
- [ ] No participation of the rated entity or related third party
- [ ] With participation of the rated entity or related third party
  - [ ] Access to internal documents
  - [ ] Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
  - Reports on the consolidated financial statements for 2018, 2019 and 2020
  - Annual Treasury Report 2020
  - Integrated Business Plan 2021, Financial Plan 2021-2023 and Investment Plan 2021-2030
  - Interim Management Report Q1/2021
  - Management interview
  - Benchmark analysis of the Dutch drinking water industry

Rating methodologies and definitions

- Methodology: Issuer Rating as of May 2016
- Basic Principles for Assigning Credit Ratings and Other Services as of July 2020
- Guidance Regarding the Consideration of ESG Factors in Scope Hamburg Credit Ratings as of March 2020
- Guidance Regarding the Consideration of Governmental Support in Scope Hamburg Credit Ratings as of January 2021

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

Scope Hamburg GmbH

Stadthausbrücke 5
20355 Hamburg
Tel.: +49 (0) 40/60 77 81 200

info@scopehamburg.com
www.scopehamburg.com

Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of Scope Hamburg, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of Scope Hamburg, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of Scope Hamburg, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of Scope Hamburg, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of Scope Hamburg, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of Scope Hamburg, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of Scope Hamburg, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of Scope Hamburg, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of Scope Hamburg, C rated entities demonstrate a very low credit quality, an event of default is immi-nent.
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.

* For more explanations and definitions please refer to:
Basic Principles for Assigning Credit Ratings and Other Services as of July 2020

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 Scope Hamburg GmbH to to assign periodic credit ratings on 02 May 2017. For the 2020 rating review a management interview was conducted on 25 May 2021.

The Rating Committee of Scope Hamburg GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 27 May 2021. This rating report was given to the client on 27 May 2021, thereby concluding the rating process.

The rating is Scope Hamburg GmbH's opinion of the creditworthiness of a rating subject. It is not a statement of fact. Scope Hamburg GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

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 Scope Hamburg 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. Scope Hamburg 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.

The rating is published on Scope Hamburg GmbH's website (www.scopehamburg.com) or published for subscribers (e.g. on a portal) and will be followed by a subsequent one-year monitoring process. During this period, the rated entity and the sector and business environment in which it operates will remain under observation. The representatives of the rated entity remain subject to a full disclosure obligation during this period. Any change in Scope Hamburg GmbH's rating assessment will result in a change in the published rating notation, meaning that this notation represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if a follow-up rating is performed.

Please note that summaries of contracts, laws and other documents contained in the rating report cannot replace careful study of the complete texts. Scope Hamburg GmbH cannot guarantee that the information used to prepare this report has not changed since it was collected and is still accurate at the time of publication. Scope Hamburg GmbH is under no obligation to complete the information that it considered when issuing the rating.

The dissemination and use of this rating report may be prohibited by law in certain jurisdictions. Scope Hamburg GmbH therefore recommends that any persons who come into the possession of this information inquire about and comply with any prohibitions that may be in place. Scope Hamburg GmbH assumes no liability of any kind with respect to the dissemination and use of the rating in any jurisdiction whatsoever.

Scope Hamburg GmbH

Hamburg, 27 May 2021

