S&P Global Ratings

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Summary:

N.V. Eneco Beheer

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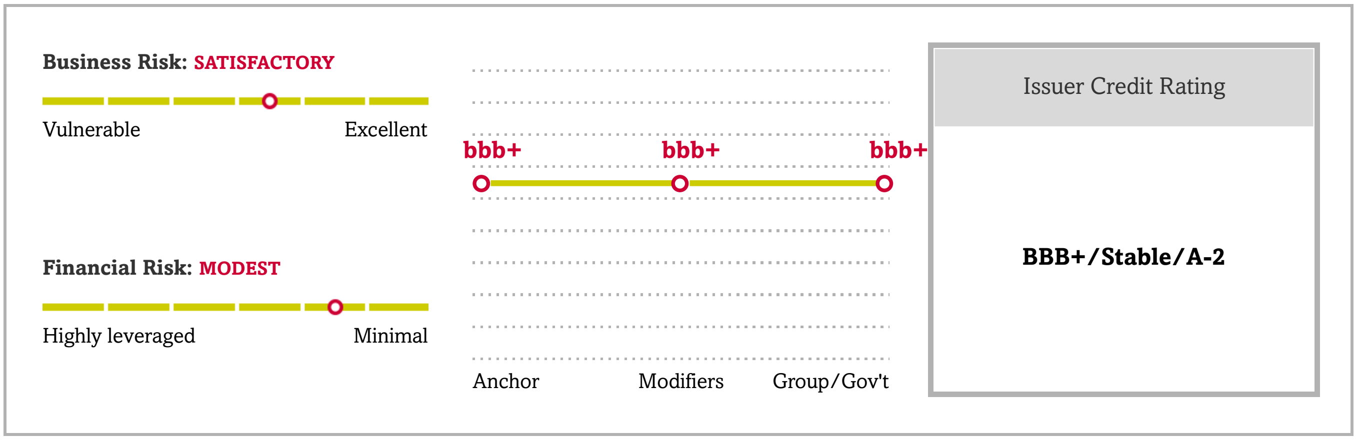

Rationale

Business Risk: Satisfactory	Financial Risk: Modest
• Wind operations in favorable jurisdictions, and heating and cooling divisions contributing about 50%-55% of EBITDA over the mid-to-long term, providing stable and predictable cash flow generation. • Expanding wind generation and retail portfolio to provide greater diversification. • Hedging position further mitigates energy and commodity price risk, at least over the next few years. • Eneco's scale remains limited compared to international peers.	• Eneco maintains a healthy financial position with low debt levels and manageable maturities. • FFO to debt dipping slightly below 50% in 2018 due to expiration of subsidy program, but improving from 2019 onward. • Intensive capital expenditure (capex) program resulting in negative free operating cash flow (FOCF) in 2018. • Liquidation of Stedin loan in January 2018 provides additional sources of liquidity to the group.

Outlook: Stable

The stable outlook on Eneco captures our expectation that a full-year consolidation of ENI's assets and Lichtblick, along with solid renewable generation and stable heating and cooling operations, will compensate for the expiration of the Prinses Amalia offshore wind farm MEP support scheme.

We expect the expiration of such a scheme will temporarily lead to funds from operations (FFO) to debt slightly below 50%; that said, our current rating on Eneco reflects our view that the company's FFO to debt mid-to-long-term trajectory will remain consistently above 50% and that 2018 is a transition year for the company .

Our stable outlook also captures our view that the final resolution of the legal inquiry following the former CEO's resignation will not have major impact on the group's operations.

Downside scenario

We could lower our ratings on Eneco if, for instance, the newly acquired retail activities fail to compensate for Prinses Amalia MEP support scheme expiration, and/or lower-than-expected wind fleet output, result in an FFO to debt trajectory remaining consistently below 50%.

Upside scenario

An upgrade is unlikely over the next 12-18 months because we expect FFO to debt to remain around 50% during that time. However, we could consider a one-notch upgrade if Eneco posts FFO to debt sustainably above 60%, because that would reflect successful synergies from its recently acquired ENI's assets and Lichtblick, as well as increasing cash flow generation from renewable activities.

Our Base-Case Scenario

Assumptions

- Real GDP growth of about 2.7% and 2.3% for 2018 and 2019, respectively, in The Netherlands. Expansion of 1.6% in Belgium for both years. Inflation rate of 1.5%-2.0% in the Flanders region, and population growth rate of about 0.3%-0.4%.
- In our opinion, continued economic expansion, along with modest inflation and slight population growth, should correlate positively with demand for Eneco's products and services.
- We assume Eneco will exercise its call option in order to acquire the remaining 50% stake in Lichtblick before the end of 2018 for about €187 million. We also assume a full year consolidation of the newly acquired asset for 2018, compared to only 10 months for 2017. We expect this will help increase revenues from 2018 onward.
- ENI supply consolidation should also contribute to increase Eneco's revenues.
- As a result, we forecast Eneco's revenues to expand by about 15.7% in 2018 and be flattish in 2019.
- We forecast EBITDA to decrease in 2018 due to the end of MEP support scheme of wind offshore Prinses Amalia. EBITDA generation increasing thereafter, mainly supported by Lichtblick's expanding consumer profitability supported by ENI's acquisition, as well as increased wind generation and cost management programs.
- Eneco to continue investing in expanding its renewables portfolio. In our opinion, the group will dedicate about 45% of total capex to wind farms development, including the Norther and Borssele offshore wind farms. The rest of the capex will likely be used for solar and bio, heating and cooling, and to a lesser extent innovation and other uses.
- We expect Norther and Borssele wind offshore farms to be operational by 2019 and 2021, respectively.
- Of total capex, we expect 25% to be committed and the remainder noncommitted.
- Since the call option for the Lichtblick 50% acquisition was accounted as debt for FY2017, the

Key Metrics

(%)	2018f	2019f	2020f
FFO/debt	49	More than 50	More than 50
EBITDA margin	9.9	13.2	15.5
Capex (mil. €)	320	370	370
FOCF/debt	Negative	8-10	18-20

execution of this option will result in a €187 million gross debt decrease for Eneco. Along with €150 million debt issuances and €68 million maturities, this should result in an overall €81 million gross debt reduction.

- Sale of Stedin loan for about €200 million, executed in January 2018.
- Dividend payments of about 50% of previous year net income.

Business Risk: Satisfactory

Eneco's business position benefits from a sizable renewable power generation fleet--mostly wind and to a lesser extent solar, bio and hydro. Including third-party controlled capacity, Eneco had a renewable production capacity slightly above 2.0 GW in 2017, 85% of which was on and offshore wind capacity.

Most of the company's wind generation plants are in The Netherlands, with about 1.3 GW of installed capacity, but Belgium and the U.K. contribute with about 450 MW and 200 MW, respectively. We view such jurisdictions as supportive of renewable power generation because they have fixed and variable subsidy schemes in place to incentivize renewable investment. Operating in these jurisdictions stabilizes and provides good clarity to a company's cash flow generation. This is why we believe that Eneco's wind generation assets located in those countries enhance its overall credit position. We expect the company's wind portfolio to continue expanding, most notably through the Norther and Borssele wind-offshore farms.

In addition, we believe that the company's hedging strategy and heating and cooling division will also contribute to preserve cash flow generation over the next few years.

Eneco's supply activities, including B2C, B2B, and commercial activities, complement the group's business portfolio. We expect the company to execute the 50% option on Lichtblick's remaining interest before the end of 2018, and to consolidate it within its supply activities. In addition, we believe that Lichtblick's green energy retailing operations will contribute about 10%-12% of EBITDA generation, providing some degree of diversification and expanding the company's footprint across Western Europe. We expect other smaller recent acquisitions, including the ENI and Uniper customer portfolios in The Netherlands, will also contribute incremental EBITDA within the next few years, and we don't discard further inorganic growth over the next few years.

Despite recent inorganic growth, we believe that Eneco's scale remains somewhat limited in size when compared to other European peers, and this remains a key constrain for its business risk profile.

Financial Risk: Modest

Although we anticipate Eneco's FFO to debt to fall slightly below 50% in 2018, mainly because the Prinses Amalia MEP subsidy scheme program is ending, the company continues to post debt to EBITDA comfortably below 2.0x. We also believe 2018 will be a transition year for Eneco's financial performance, and that FFO generation will regain momentum in 2019 due to contributions from newly acquired assets and expanding wind operations. Therefore, our financial risk profile on Eneco continues to capture a medium-to-long term FFO to debt ratio trending, on average, above 50%.

We also anticipate that working capital outflows coupled with intensive capex program will result in negative free operating cash flows for 2018. However, the liquidation of Eneco's loan to Stedin loan in January 2018 somewhat mitigates these dynamics and supports to the company's cash position.

Table 1

N.V. Eneco Beheer -- Financial Summary		
Industry Sector: Energy		
	--Fiscal year ended Dec. 31--	
	2017	**2016***
Rating history	BBB+/Stable/A-2	BBB+/Stable/A-2
(Mil. €)		
Revenues	3,355.0	2,746.0
EBITDA	470.3	421.6
Funds from operations (FFO)	386.9	363.8
Net income from continuing operations	127.0	103.0
Cash flow from operations	758.9	323.8
Capital expenditures	160.7	306.3
Free operating cash flow	598.3	17.5
Discretionary cash flow	598.3	17.5
Cash and short-term investments	347.0	278.0
Debt	728.5	471.1
Equity	2,869.0	3,121.0
Adjusted ratios		
EBITDA margin (%)	14.0	15.4
Return on capital (%)	4.8	2.6
EBITDA interest coverage (x)	11.0	10.2
FFO cash int. cov. (x)	25.3	40.5
Debt/EBITDA (x)	1.5	1.1
FFO/debt (%)	53.1	77.2
Cash flow from operations/debt (%)	104.2	68.7
Free operating cash flow/debt (%)	82.1	3.7
Discretionary cash flow/debt (%)	82.1	3.7

*Financial figures for 2016 are pre-unbundling.

Liquidity: Strong

We view Eneco's liquidity position as adequate given its strong cash position, resulting from the sale of Stedin loan in Jan. 2018 and continued cash FFO generation. The company's ample access to committed RCF also enhances the group's assessment. Due to the aforementioned, and despite an intensive capex program, we expect Eneco to be able to maintain sources over uses ratio well above 1.2x over the next 12 months.

Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash of €464 million as of June 30, 2018. • Available committed RCF of €600 million maturing in 2022. • FFO generation in the €350 million-€370 million range.	• Execution of call option for the remaining 50% stake in Lichtblick for about €187 million. • No significant debt maturities over the next 12 months. • Dividend payments of 50% of previous year net income.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/A-2

Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Moderately high
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/Leverage:** Modest

Anchor: bbb+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Table 2

Reconciliation Of N.V. Eneco Beheer Reported Amounts With S&P Global Ratings Adjusted Amounts (Mil. €)								
	--Fiscal year ended Dec. 31, 2017--							
N.V. Eneco Beheer reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Capital expenditures**
Reported	735.0	2,866.0	428.0	158.0	23.0	428.0	736.0	156.0
S&P Global Ratings adjustments								
Interest expense (reported)	--	--	--	--	--	(23.0)	--	--
Interest income (reported)	--	--	--	--	--	7.0	--	--
Current tax expense (reported)	--	--	--	--	--	(51.0)	--	--
Operating leases	204.3	--	29.0	13.0	13.0	16.0	16.0	--
Postretirement benefit obligations/deferred compensation	12.8	--	--	--	--	--	--	--
Surplus cash	(347.0)	--	--	--	--	--	--	--
Dividends received from equity investments	--	--	4.0	--	--	4.0	--	--
Power purchase agreements	66.5	--	9.3	4.7	4.7	4.7	4.7	4.7
Asset retirement obligations	57.0	--	--	--	2.0	1.3	2.3	--
Non-operating income (expense)	--	--	--	7.0	--	--	--	--
Non-controlling Interest/Minority interest	--	3.0	--	--	--	--	--	--
Total adjustments	(6.5)	3.0	42.3	24.6	19.6	(41.1)	22.9	4.7
S&P Global Ratings adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditures**
Adjusted	728.5	2,869.0	470.3	182.6	42.6	386.9	758.9	160.7

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Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-