MOODY'S
INVESTORS SERVICE

CREDIT OPINION

20 April 2018

Update

Rate this Research

RATINGS

Alliander N.V.

Domicile	Netherlands
Long Term Rating	Aa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Analyst Contacts

Stefanie Voelz 44-20-7772-5555
Senior Credit Officer
stefanie.voelz@moodys.com

Velina Karadzhova 44-20-7772-5478
Analyst
velina.karadzhova@moodys.com

Neil Griffiths-Lambeth 44-20-7772-5543
Associate Managing Director
neil.griffiths-lambeth@moodys.com

Alliander N.V.

Regular update following FY17 annual reporting

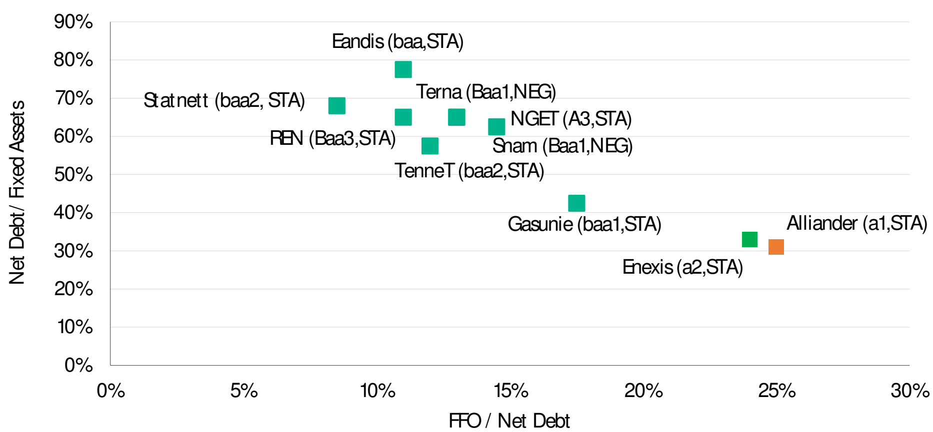
Summary

The credit quality of Alliander N.V. (Alliander, Aa2 stable) is underpinned by a combination of (1) the low-risk business profile of Alliander's domestic electricity and gas distribution network operations; (2) a well-defined and transparent regulatory framework; and (3) its balanced financial profile, with relatively modest leverage for the sector and solid liquidity position.

Despite decreasing allowed returns in the current regulatory period to 2021, we expect Alliander to maintain a strong financial profile over the medium term, supported by (1) a moderate distribution policy; and (2) manageable investment requirements.

Exhibit 1

Modest leverage compared to European peers supports strong stand-alone credit quality



Note 1: Financial metrics used represent middle point of Moody's forward view estimates as published in latest credit opinions and ratings shown represent stand-alone credit quality (expressed as assigned final rating or baseline credit assessment where applicable); Note 2: NGET - National Grid Electricity Transmission plc
Source: Moody's estimates

The Aa2 rating incorporates a two-notch rating uplift reflecting the potential for extraordinary support from Alliander's owners, the largest of which is the Province of Gelderland with a 45% shareholding, if such were ever needed.

Credit Strengths

» Low business risk profile supported by predictable cash flows from predominantly monopoly regulated activities

» Stable and transparent regulatory regime

» Moderate investment requirements and balanced distribution policy underpin strong financial profile going forward

» Potential for support from local government shareholders

Credit Challenges

» Falling regulatory returns in the current low interest-rate environment reduce financial flexibility

Rating Outlook

The stable outlook for Alliander reflects our expectation that the company will maintain focus on its regulated business and maintain a balanced financial policy, thus, allowing it to continue exhibiting a financial profile in line with the guidance for the current rating.

Factors that Could Lead to an Upgrade

Funds from operations (FFO)/net debt comfortably above the mid-thirties and retained cash flow (RCF) permanently in the high-twenties, both in percentage terms, may put upward pressure on the ratings, provided that such metrics are still combined with a conservative approach to the business, i.e. continued focus on the core regulated activities, and a prudent financial and dividend policy.

Factors that Could Lead to a Downgrade

The rating could be considered for downgrade if Alliander failed to maintain the following minimum credit metrics: FFO/net debt above 25% on a sustainable basis and net debt/fixed assets below the low forties in percentage terms. Downward rating pressure could also arise if the potential support from Alliander's local government shareholders were to be seen less likely to be obtained or if their credit strength were to weaken.

Key Indicators

Exhibit 2

Alliander exhibits strong financial metrics

	FY13	FY14	FY15	FY16	FY17
FFO Interest Coverage	7.6x	7.5x	7.7x	8.4x	9.7x
Net Debt / Fixed Assets	33.7%	28.1%	29.2%	27.9%	29.8%
FFO / Net Debt	30.7%	31.9%	26.3%	25.1%	25.5%
RCF / Net Debt	26.6%	24.4%	19.4%	20.1%	20.1%

Note: All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics TM

Profile

Alliander N.V. owns and manages low and medium voltage electricity and gas distribution networks in the Dutch provinces of Gelderland, Noord-Holland, Flevoland and large parts of, Friesland and Zuid-Holland. The company is the largest electricity and gas network operator in the Netherlands with approximately 3.1 million electricity and 2.5 million gas connections, covering approximately 35% of the Netherlands.

The company is fully owned by Dutch provinces and municipalities, with the largest owners being the provinces of Gelderland (45%), Friesland (13%), Noord-Holland (9%), and the City of Amsterdam (9%). The remaining 24% share is owned by 73 small municipalities where Alliander provides its network services.

Detailed Credit Considerations

Low business risk profile supported by predictable cash flows from predominantly regulated activities

Regulated activities (i.e., the operation of energy distribution networks) contribute around 85% of Alliander's revenues, providing relatively stable and predictable cash flows under a transparent regulatory regime, and medium term visibility over investment requirements.

Alliander's unregulated activities represent less than 15% of revenues and comprise network service, maintenance and operations for regulated monopolies (through Liandon) and are strongly linked to Alliander's core business. We expect the proportion of non-regulated cash flows to reduce slightly going forward, because of the planned divestment of the company's subsidiary Allego, announced in January 2018, which provides electric vehicle charging infrastructure.

Stable and transparent regulatory regime but allowed returns continue to decline

The Dutch regulatory framework, applied since 2000 and 2001 for electricity and gas networks, respectively, allows the country's distribution network companies to earn a return on their regulated asset base (RAB), and provides allowances for costs adjusted for consumer price index (CPI) inflation and an efficiency incentive factor. The regulation incorporates incentives determined by a "yardstick" mechanism, which defines the cost efficiency and quality factors based on industry averages and encourages network operators to outperform. This approach is typical amongst regulatory regimes in Europe and we consider that the application by the Dutch regulator, the Authority for Consumers and Markets (ACM), has been transparent and consistent to date.

The current price control period for both electricity and gas distribution runs from January 2017 to December 2021. In September 2016, ACM published its final determination for the period and this includes a further gradual reduction in the allowed return to 3.0% (pre-tax, real) by 2021 from 4.0% at the start of the current regulatory period in 2017.

Exhibit 3

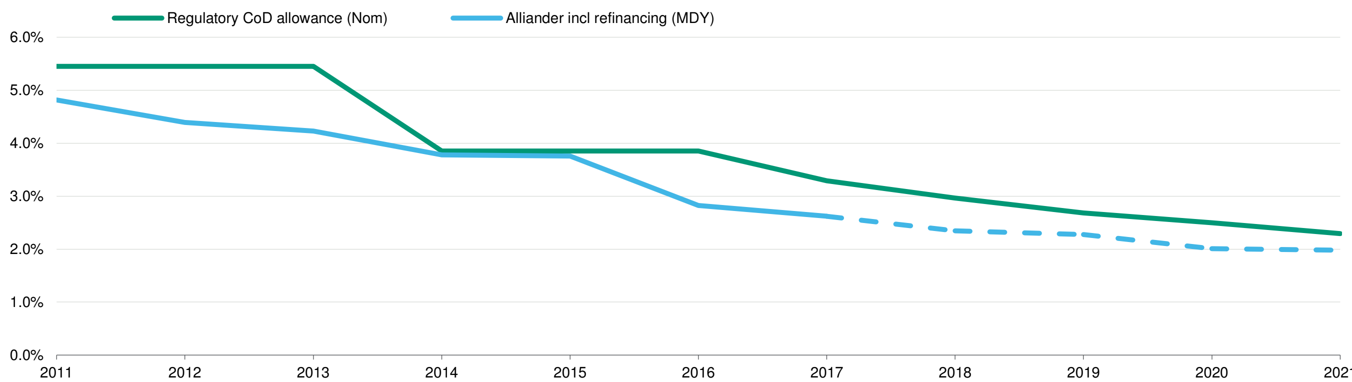
Allowed return for Dutch network operators shows declining trend

WACC - Dutch DSOs	2008-2010	2011-2013	2014-2016	2017	2018	2019	2020	2021
risk free rate	4.00%	3.95%	2.50%	2.20%	1.90%	1.67%	1.50%	1.33%
risk premium	0.80%	1.50%	1.20%	0.95%	0.91%	0.87%	0.86%	0.81%
transaction costs	0.00%	0.00%	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%
Nominal Cost of Debt	**4.80%**	**5.45%**	**3.85%**	**3.29%**	**2.96%**	**2.68%**	**2.50%**	**2.29%**
nominal risk free rate for CoE	4.00%	3.95%	2.50%	1.28%	1.28%	1.28%	1.28%	1.28%
market risk premium	5.00%	5.00%	5.00%	5.05%	5.05%	5.05%	5.05%	5.05%
asset beta	0.41	0.42	0.35	0.42	0.42	0.42	0.42	0.42
equity beta	0.86	0.81	0.61	0.74	0.74	0.74	0.74	0.74
Nominal Cost of Equity	**8.30%**	**8.00%**	**5.55%**	**5.02%**	**5.02%**	**5.02%**	**5.02%**	**5.02%**
gearing assumption	60%	55%	50%	50%	50%	50%	50%	50%
tax rate	25.5%	25.5%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Nominal WACC pre-tax	**7.3%**	**7.8%**	**5.6%**	**5.0%**	**4.8%**	**4.7%**	**4.6%**	**4.5%**
inflation	1.75%	1.55%	2.00%	0.90%	1.03%	1.16%	1.29%	1.42%
Real WACC pre-tax	**5.5%**	**6.2%**	**3.6%**	**4.1%**	**3.8%**	**3.5%**	**3.3%**	**3.0%**

Source: ACM, Moody's calculations

The reduction in allowed returns is less material than in the 2014-16 regulatory period where it fell from 6.2% to 3.6% (both pre-tax, real) in gradual steps. Alliander has demonstrated its ability to fund comfortably around the cost of debt embedded in the return allowance, and benefits from recent issuance including the €500 million hybrid refinancing completed in January 2018 at a coupon of 1.625%. Reflecting debt outstanding as at 31 December 2017, including hybrids, Alliander's average cost of debt is just over 2.5% (nominal), slightly below the regulatory cost of debt assumptions into 2018.

Exhibit 4
Regulatory allowance for cost of debt 2017-2021 and Alliander's average cost of debt (Moody's estimate)



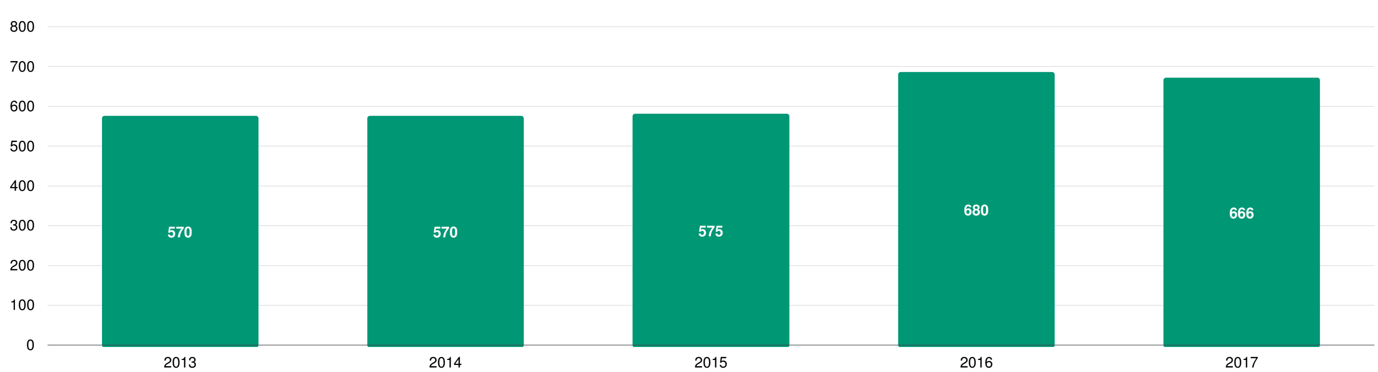
Note: Moody's estimates include Alliander's refinancing of the hybrid during 2018 and assumptions for the next 2019 maturity as well as ongoing investment needs
Source: ACM, Alliander annual reports and Moody's estimate

The regulator imposes a series of cost efficiency targets on the networks, which combined with the allowed return determine the so-called `X-factor', currently set at 1.90% for electricity and 1.42% for gas annually for Alliander (previously around 4% and 7% respectively). While base costs were reset on the basis of average efficient costs in the period 2013-2015, resulting in an increase in the overall revenue allowance for 2017-21, the operating efficiency targets embedded in the X-factor may still prove challenging.

Limited investment requirements and conservative financial policy support strong financial profile

The technical operating performance of the Dutch networks is excellent when compared to European peers, demonstrated by the networks' high reliability and lower unplanned interruptions time. The generally good condition of the Dutch energy network assets reduces necessary maintenance requirements. Total capital expenditure was stable around €500-600 million (gross of customer contributions) in the past, but we expect an increase over the period to 2020 with the smart meter roll-out that started in 2015. This is the biggest single investment project for Alliander and will see total annual capex increasing towards €750-800 million (gross of contributions). Investment needs to accommodate decentralised energy generation as well as integration of renewable generation are somewhat mitigated by ongoing technology updates to the existing network.

Exhibit 5
Increasing, but manageable investments due to smart meter roll-out



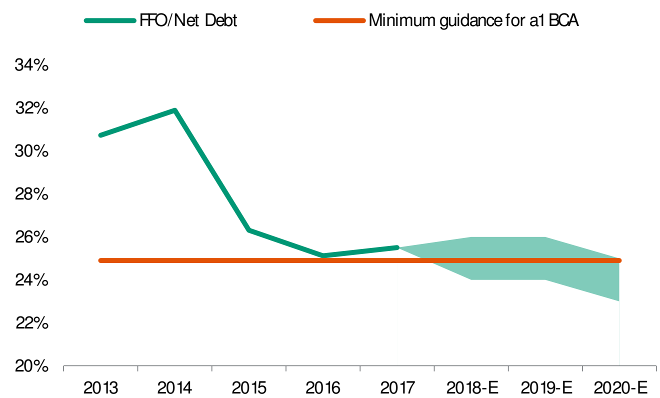
Source: Alliander Annual Reports

The modest investment requirements, particularly when compared with transmission network operators, underpin our expectation of a continuously strong financial profile. In addition, management maintains a conservative dividend policy, with distributions around 45% of net income.

Over the next five years, we expect Alliander to continue to exhibit strong financial metrics, although operational cash flows will decline due to the reduction in allowed returns. We forecast Alliander to maintain FFO/net debt above 25%, and RCF/net debt in excess of 20% over the medium term, creating a slightly stronger stand-alone financial profile than exhibited by its peer Enexis, recognised in a one-notch higher rating.

Exhibit 6

Moody's forecast declining cash flows due to lower returns...
FFO/Net Debt against guidance

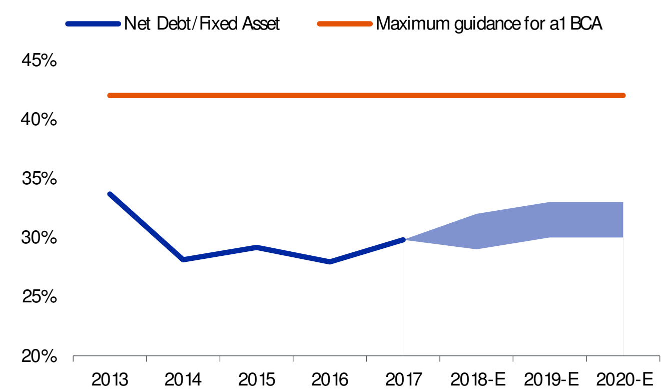


Note: [1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; [2] As of 12/31/2017; [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics TM

Exhibit 7

... but with little impact on gearing
Net Debt/Fixed Assets against guidance



As part of the Dutch government's wider policy to arrange network operations along provincial borders, on 1 January 2016, Alliander and Enexis concluded an asset sale and purchase agreement to swap certain assets within their areas. Alliander's Endinet business serves a larger number of customers than that of Enexis and, therefore, Enexis made a €359 million compensation payment to Alliander. While, as a consequence, Enexis's financial metrics weakened marginally, Alliander's leverage metrics improved. However, Alliander's operating cash flows are also reducing, and coupled with the ongoing reduction in allowed returns, Alliander will have to achieve its targeted cost efficiency savings in order to maintain its FFO/net debt metrics in line with guidance.

Liquidity Analysis

Alliander continues to maintain a strong liquidity position, supported by large committed liquidity facilities and solid cash flow generation, although we expect operating cash flows to decline over the current regulatory period. As at 31 December 2017, the company had €101 million of cash and cash equivalents, a €600 million revolving credit facility - fully undrawn and available until July 2022 - and €225 million of undrawn committed term loans. In addition, Alliander is an active issuer of commercial papers (CP) under its established €1.5 billion ECP programme, which is however uncommitted.

After early refinancing of its €500 million hybrid in January 2018, the next significant bond maturity for Alliander is €300 million due in December 2019. Liquidity in place is sufficient to cover in excess of 12 months' scheduled cash requirements.

Alliander has exposure to contingent liabilities represented by three cross-border leasing (CBL) arrangements. In the case of an unscheduled early termination of all of these CBLs at the same time this could give rise to a total exposure (maximum strip risk) of US $186 million as of 31 December 2017. According to the conditions of some of the CBLs, the company would need to post additional letters of credit if its ratings were to drop below certain minimum levels. We note that the company can access its €600 million revolving credit facility to cover potential financing needs stemming from the CBLs.

Rating Methodology and Scorecard Factors

The principal methodology used in assessing Alliander's stand-alone credit quality, i.e. prior to incorporating the benefit of its ownership structure, is Moody's rating methodology for regulated electric and gas networks, published in March 2017.

The indicated rating from the regulated networks methodology grid is A1, in line with the company's stand-alone credit quality, expressed as an a1 baseline credit assessment (BCA). Over the next 12-18 months, we expect Alliander to exhibit a financial profile broadly in line with historical metrics.

Exhibit 8

Alliander N.V. - Rating Grid

Regulated Electric and Gas Networks Industry Grid [1][2]	Current 12/31/2017		Moody's 12-18 Month Forward View As of 4/17/2018 [3]	
Factor 1 : Regulatory Environment and Asset Ownership Model (40%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Regime	Aa	Aa	Aa	Aa
b) Asset Ownership Model	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Ability and Timeliness)	A	A	A	A
d) Revenue Risk	Aa	Aa	Aa	Aa
Factor 2 : Scale and Complexity of Capital Program (10%)				
a) Scale and Complexity of Capital Program	Baa	Baa	Baa	Baa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	A	A	A	A
Factor 4 : Leverage and Coverage (40%)				
a) FFO Interest Coverage (3 Year Avg)	8.5x	Aaa	9x - 12x	Aaa
b) Net Debt / Fixed Assets (3 Year Avg)	29.0%	Aaa	29% - 33%	Aa
c) FFO / Net Debt (3 Year Avg)	25.7%	A	24% - 26%	A
d) RCF / Net Debt (3 Year Avg)	19.9%	A	19% - 22%	A
Rating:				
Indicated Rating from Grid Factors 1-4		Aa3		A1
Rating Lift		**0**		**0**
a) Indicated Rating from Grid		Aa3		A1
b) Actual Rating Assigned				Aa2
Government-Related Issuer				**Factor**
a) Baseline Credit Assessment				a1
b) Government Local Currency Rating				n/a
c) Default Dependence				Very High
d) Support				Strong
e) Final Rating Outcome				Aa2

Note: [1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; [2] As of 12/31/2017; [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics TM

Given its 100% ownership by Dutch provinces and municipalities, Alliander falls within the scope of our rating methodology for government-related issuers, published in August 2017.

Alliander's Aa2 rating incorporates a two-notch uplift from its stand-alone credit quality, expressed as a BCA of a1, reflecting a strong probability of extraordinary financial support being provided by its owners, if ever required, the largest of which is the Province of Gelderland with around 45%. Although ownership of Alliander is relatively fragmented among 77 provinces and municipalities, our assumption of strong support reflects (1) the importance of Alliander's network operations for the regional economy; (2) the fact that the four largest provinces together hold 76% of the company's shares; and (3) the strong governance framework in the Netherlands with oversight by the national government.

Our assessment of very high default dependence reflects Alliander's significant exposure to the Dutch economy, as almost all of the company's revenues and cash flows are generated from domestic activities.

Appendix

Exhibit 9

Peer Comparison

	Alliander N.V.			Enexis Holding N.V.			Fingrid Oyj			N.V. Nederlandse Gasunie			TenneT Holding B.V.		
	Aa2			Aa3			A1			A2			A3		
EUR Millions	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	LTM FY17	FY15	FY16	FY17
Revenue	1,540.0	1,584.0	1,697.0	1,353.0	1,376.0	1,380.0	600.2	586.1	672.0	1,631.0	1,547.8	1,473.1	2,844.0	2,843.0	3,976.0
EBITDA	634.0	559.0	658.0	729.6	728.0	718.0	275.5	261.3	273.8	1,121.9	1,074.6	1,009.3	943.0	959.0	1,537.0
Total debt	2,028.0	1,916.0	2,165.7	2,417.3	2,444.0	2,647.0	1,165.3	1,134.4	1,110.1	4,677.6	4,263.8	3,816.3	5,151.0	8,083.0	8,776.0
Net debt	1,914.0	1,853.0	2,065.7	1,760.3	2,246.0	2,361.0	1,049.0	1,054.7	1,026.3	4,612.9	4,025.4	3,784.0	5,148.0	7,926.0	8,721.0
Fixed Assets	6,565.0	6,633.0	6,924.7	6,215.9	6,790.2	7,078.6	1,697.1	1,714.8	1,702.2	9,199.2	8,740.5	8,700.7	12,196.0	13,461.0	14,870.0
FFO Interest Coverage	7.7x	8.4x	9.7x	6.4x	8.1x	9.6x	8.3x	8.2x	10.5x	7.2x	7.5x	9.3x	5.2x	5.3x	6.9x
Net Debt / Fixed Assets	29.2%	27.9%	29.8%	28.3%	33.1%	33.4%	61.8%	61.5%	60.3%	50.1%	46.1%	43.5%	42.2%	58.9%	58.6%
FFO / Net Debt	26.3%	25.1%	25.5%	31.4%	25.5%	24.3%	21.1%	19.2%	21.0%	19.5%	20.7%	21.0%	13.7%	9.8%	13.5%
RCF / Net Debt	19.4%	20.1%	20.1%	23.9%	20.6%	19.9%	14.9%	10.7%	11.5%	11.7%	12.5%	18.1%	10.9%	6.3%	9.3%

Source: Moody's Financial Metrics™. All figures are calculated using Moody's estimates and standard adjustments.

Exhibit 10

Debt Adjustment Breakdown

EUR Millions	FY12	FY13	FY14	FY15	FY16	FY17
As reported Debt	**2,027.0**	**2,022.0**	**1,920.0**	**1,830.0**	**1,732.0**	**1,934.0**
Operating Leases	184.0	204.0	104.0	112.0	104.0	131.7
Hybrid Securities	247.0	248.0	248.0	248.0	248.0	248.0
Non-Standard Adjustments	-131.0	-126.0	-144.0	-162.0	-168.0	-148.0
Moody's - Adjusted Debt	**2,327.0**	**2,348.0**	**2,128.0**	**2,028.0**	**1,916.0**	**2,165.7**
Cash and Cash Equivalents	-175.0	-255.0	-351.0	-114.0	-63.0	-100.0
Moody's - Adjusted Net Debt	**2,152.0**	**2,093.0**	**1,777.0**	**1,914.0**	**1,853.0**	**2,065.7**

Source: Moody's Financial Metrics™. All figures are calculated using Moody's estimates and standard adjustments.

Exhibit 11

Alliander N.V.

Selected historical financials as adjusted by Moody's

EUR Millions	FY12	FY13	FY14	FY15	FY16	FY17
INCOME STATEMENT						
Revenue	1,674.0	1,744.0	1,594.0	1,540.0	1,584.0	1,697.0
EBIT	394.9	473.7	470.1	335.4	207.4	314.3
EBITDA	711.0	814.0	745.0	634.0	559.0	658.0
Interest expense	114.1	97.9	87.2	75.6	62.5	60.4
BALANCE SHEET						
Total Debt	2,327.0	2,348.0	2,128.0	2,028.0	1,916.0	2,165.7
Net Debt	2,152.0	2,093.0	1,777.0	1,914.0	1,853.0	2,065.7
Total Liabilities	4,642.0	4,625.0	4,445.0	4,399.0	4,223.0	4,506.7
Fixed Assets	6,005.0	6,216.0	6,322.0	6,565.0	6,633.0	6,924.7
Total Assets	7,598.0	7,752.0	7,776.0	7,838.0	7,839.0	8,200.7
CASH FLOW						
Funds from operations (FFO)	608.9	643.1	566.8	503.4	465.5	527.6
Cash Flow From Operations (CFO)	572.1	715.1	637.8	529.4	390.5	464.6
Cash Dividends - Common	-113.0	-74.0	-125.0	-125.0	-85.0	-104.0
Retained Cash Flow (RCF)	483.9	557.3	433.9	370.6	372.6	415.7
Capital Expenditures	-532.1	-537.3	-514.9	-514.6	-603.6	-588.7
Free Cash Flow (FCF)	-85.0	92.0	-10.0	-118.0	-306.0	-236.0
FFO / Net Debt	28.3%	30.7%	31.9%	26.3%	25.1%	25.5%
RCF / Net Debt	22.5%	26.6%	24.4%	19.4%	20.1%	20.1%
FCF / Net Debt	-3.9%	4.4%	-0.6%	-6.2%	-16.5%	-11.4%
PROFITABILITY						
EBIT Margin %	23.6%	27.2%	29.5%	21.8%	13.1%	18.5%
EBITDA Margin %	42.5%	46.7%	46.7%	41.2%	35.3%	38.8%
INTEREST COVERAGE						
FFO Interest Coverage	6.3x	7.6x	7.5x	7.7x	8.4x	9.7x
LEVERAGE						
Debt / EBITDA	3.3x	2.9x	2.9x	3.2x	3.4x	3.3x
Net Debt / EBITDA	3.0x	2.6x	2.4x	3.0x	3.3x	3.1x
Debt / Book Capitalization	44.0%	42.9%	39.0%	37.1%	34.6%	36.9%
Net Debt / Fixed Assets	35.8%	33.7%	28.1%	29.2%	27.9%	29.8%

Source: Moody's Financial Metrics™. All figures are calculated using Moody's estimates and standard adjustments.

Ratings

Exhibit 12

Category	Moody's Rating
ALLIANDER N.V.	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured -Dom Curr	Aa2
Jr Subordinate -Dom Curr	A2
ST Issuer Rating	P-1
ALLIANDER FINANCE B.V.	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Aa2

Source: Moody's Investors Service

REPORT NUMBER 1115227

Moody's
INVESTORS SERVICE