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CREDIT OPINION
27 July 2016

Update

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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.

Update following draft regulatory proposals

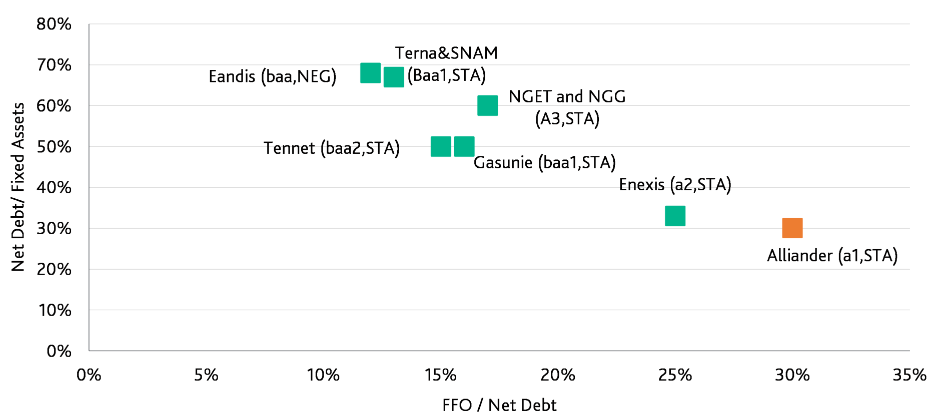
Summary Rating Rationale

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

During the current regulatory period 2014-2016, allowed returns gradually reduced from 6.2% to 3.6% (real, pre-tax), and the draft proposals for the new five-year period commencing in 2017 suggests a further decline to around 3.1% (real, pre-tax) by 2021. Despite lower allowed returns, we expect Alliander to maintain a strong financial profile over the medium term, supported by (1) limited investment requirements; (2) a moderate distribution policy; and (3) a €359 million compensation payment received from its peer network operator Enexis Holding N.V. (Enexis, Aa3 stable) under an asset swap agreement that concluded on 1 January 2016.

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 and NGG - National Grid Gas plc
Source: Moody's forward view

The Aa2 rating also incorporates a two-notch rating uplift under our rating methodology for Government-Related Issuers (GRI), published October 2014, reflecting the potential support from Alliander's owners.

Credit Strengths

» Low business risk profile supported by predictable cash flows due to predominantly regulated activities

» Stable and transparent regulatory regime

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

» Two notches of rating uplift reflecting potential support from 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 continue to follow its conservative financial policy.

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 in percentage terms may put upward pressure on the ratings, provided that such metrics are combined with a still conservative approach to the business, with continuing focus on the core regulated activities, and a prudent financial and dividend policy.

Factors that Could Lead to a Downgrade

To be safely positioned within its current BCA of a1, we would expect Alliander 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 government shareholders were to be seen less likely to be obtained.

Key Indicators

Exhibit 2

Alliander exhibits strong financial metrics

	12/31/2015	12/31/2014	12/31/2013	12/31/2012
FFO Interest Coverage	7.5x	7.1x	7.6x	6.3x
Net Debt / Fixed Assets	29.2%	28.1%	33.7%	35.8%
FFO / Net Debt	25.7%	29.8%	30.7%	28.3%
RCF / Net Debt	18.7%	22.3%	26.6%	22.5%

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

Detailed Rating 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 more than 90% 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 10% of revenues and the company strategy does not envisage material growth of such activities in the medium term. Non-regulated activities comprise network service, maintenance and operations for regulated monopolies (through Liandon) and are strongly linked to Alliander's core business.

Stable and transparent regulatory regime but allowed returns continue to decline

The Dutch framework applied since 2000 and 2001 for electricity and gas networks, respectively, allows the country's distribution companies to earn a return on their regulated asset base (RAB), adjusted for a consumer price index (CPI) and an efficiency incentive factor. The regulation incorporates incentives based on a "yardstick" mechanism, which defines the efficiency and quality factors based on industry averages and encourages network companies to improve profitability by outperforming the sector. This approach is typical of peer regulatory regimes in Europe and we consider that the application of the Dutch regulatory methodologies by the 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 runs until December 2016. In April 2016, ACM published its draft consultation for the next regulatory period commencing in 2017, proposing a further gradual reduction in the allowed return to 3.1% (pre-tax, real) by 2021 from 3.6% during 2016 (see Moody's sector-in-depth comment 'Dutch Regulated Energy Networks: Lower allowed return poses fresh challenge', published in May 2016).

Exhibit 3

Allowed return for Dutch network operators shows declining trend

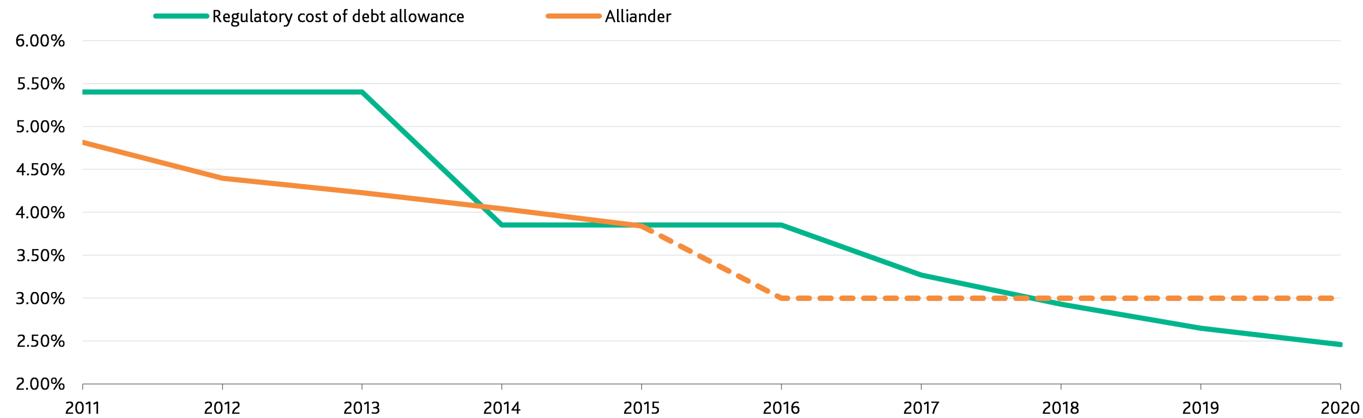
	2010-13*	2011-13*		2014-16	2016**	2017	2018	2019	2020	2021
	G-TSO	E-TSO	E+G-DSO							
Cost of debt (%)	4.6-5.4	5.0-5.9	5.0-5.9	3.85	*3.57*	3.27	2.93	2.65	2.46	2.25
Cost of equity (%)	6.3-8.5	7.2-8.1	7.2-8.7	5.56	*4.89*	4.89	4.89	4.89	4.89	4.89
Notional gearing (%)	50-60	50-60	50-60	50	*50*	50	50	50	50	50
Tax (%)	25	25.5	25.5	25	*25*	25	25	25	25	25
WACC (nominal pre-tax)	6.1-8.4	6.9-8.4	6.9-8.8	5.63	*5.04*	4.89	4.73	4.59	4.49	4.38
Inflation (%)	1.3-1.5	1.5-1.6	1.5-1.6	2	*1.26*	1.26	1.26	1.26	1.26	1.26
Calculated WACC ranges (real pre-tax)	**4.7-6.8%**	**5.3-6.7%**	**5.3-7.1%**	**3.6%**	***3.7%***	**3.6%**	**3.4%**	**3.3%**	**3.2%**	**3.1%**
Allowed WACC (real-pre-tax)	**5.8%**	**6.0%**	**6.2%**	**3.6%**						

Notes: * For the period 2010/11-13, the WACC differed across the network companies, set at 5.8% for Gasunie (2010-13), 6.0% for TenneT (2011-13) and 6.2% for Alliander and Enexis (2011-13). The return allowance stepped down each year to reach the allowed level in the last year of the period. ** In its draft proposal, the ACM also set out the WACC calculation for 2016 under the revised approach for including embedded cost of debt. This will flow into the analysis of efficient costs to determine revenue allowances for 2017-21. Moody's calculations for 2017-20 reflect the 10-year trailing average cost of debt approach as proposed by the ACM.
Source: ACM, Moody's calculations

The reduction in allowed returns will be less material than in the current regulatory period where it fell from 6.2% to 3.6% (both pre-tax, real) in gradual steps over 2014-16.

Alliander has demonstrated its ability to fund comfortably around the cost of debt implied with the proposed return allowance, and benefits from recent issuance at favourable terms, such as the €300 million 0.875% 10-year notes in April 2016.

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



Note: Moody's estimates exclude Alliander's refinancing needs in 2019
Source: ACM, Enexis annual reports and Moody's estimate

Reflecting the most recent issuance and taking into account the company's hybrid issuance, Alliander's average cost of debt is around 3% (nominal), broadly in line with the regulatory cost of debt assumptions until 2018.

Limited investment requirements and conservative financial policy support string financial profile

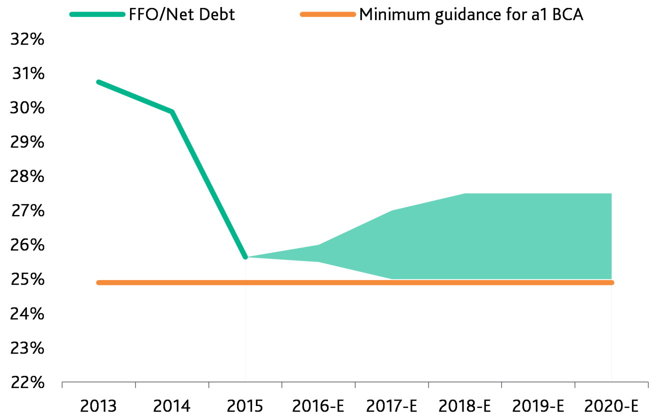
The technical operating performance of the Dutch networks is excellent when compared to other European peers, demonstrated by the networks' high reliability and lower unplanned interruptions time. The generally good condition of the Dutch energy network assets reduces necessary maintenance requirements.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

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

Over the medium term, we expect Alliander to continue to exhibit strong financial metrics, although operational cash flows may be lower due to the reduction in allowed returns and the composition of the asset swap with Enexis. 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 the one-notch higher rating.

Exhibit 5

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

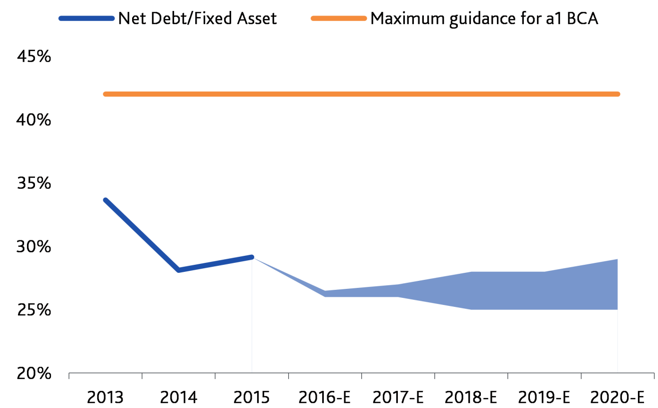


Note: [1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; [2] As of 12/31/2015; [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics TM, Moody's forecast incorporating draft regulatory proposals

Exhibit 6

... but also lower gearing due to asset swap compensation payment
Net Debt/Fixed Assets against guidance



[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; [2] As of 12/31/2015; [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, Moody's forecast incorporating draft regulatory proposals

Asset swap with Enexis further improves already strong metrics

On 1 January 2016, Alliander and Enexis concluded an asset sale and purchase agreement to swap certain assets within their areas. The transaction saw Enexis transfer its networks in the Friesland province and the Noordoostpolder area, in exchange for Alliander's network in the Eindhoven and southeast Brabant region (operated by Endinet). This is part of the Dutch government's wider policy to arrange network operations along provincial borders.

Alliander's Endinet business serves a larger number of customers (108,000 electricity and 398,000 gas connections) than the Enexis assets to be transferred (combined 79,000 electricity and 223,000 gas connections). Therefore, Enexis made a €359 million compensation payment to Alliander for the larger revenue generation capability of the latter's assets to be transferred. While, as a consequence, Enexis's financial metrics may weaken marginally, we expect Alliander's metrics to improve, despite given up some revenue potential. Please also refer to 'Dutch Electricity and Gas Distribution Networks: Asset Swap Not Expected to Affect Alliander's or Enexis's Ratings', published in March 2015, for details on the asset swaps.

Liquidity Analysis

Alliander continues to maintain a strong liquidity position. This is supported by large committed liquidity facilities and solid cash flow generation, although we expect cash generation to decline over the current regulatory period. As at 31 December 2015, the company had €89 million of cash (plus €25 million of short-term deposits) and a €600 million revolving credit facility - fully undrawn and available until July 2018. In addition, the company is an active issuer of commercial papers (CP) under its established €1.5 billion ECP programme.

The next significant bond maturity is €300 million due in 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 $181 million as of 31 December 2015. 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, including for issuing related letters of credit.

Profile

Alliander N.V. owns and manages low and medium voltage electricity and gas distribution networks in the Dutch provinces of Gelderland, Noord-Holland and large parts of Flevoland, Friesland, Zuid-Holland and Noord-Brabant. 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 54 small municipalities where Alliander provides its network services. Alliander is the largest electricity and gas network operator in the Netherlands with approximately 3 million electricity and 2.5 million gas connections and it has a combined market share of 35% in the Netherlands.

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 November 2014.

The indicated rating from the regulated networks methodology grid is Aa3, one notch higher than the assigned 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 7

Alliander N.V. - Rating Grid

Regulated Electric and Gas Networks Industry Grid [1][2]	Current FY 12/31/2015		Moody's 12-18 Month Forward View As of July 2016 [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)	7.4x	Aa	6x - 8x	Aa
b) Net Debt / Fixed Assets (3 Year Avg)	30.3%	Aa	25% - 35%	Aa
c) FFO / Net Debt (3 Year Avg)	28.8%	Aa	25% - 35%	Aa
d) RCF / Net Debt (3 Year Avg)	22.7%	Aa	20% - 25%	Aa
Rating:				
Indicated Rating from Grid Factors 1-4		Aa3		Aa3
Rating Lift	0	0	0	0
a) Indicated Rating from Grid		Aa3		Aa3
b) Actual Rating Assigned				Aa2
Government-Related Issuer		**Factor**		**Factor**
a) Baseline Credit Assessment		a1		a1
b) Government Local Currency Rating		Aaa		Aaa
c) Default Dependence		Very High		Very High
d) Support		Strong		Strong
e) Final Rating Outcome		Aa2		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 12/31/2015; [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 (GRIs), published in October 2014. Alliander's Aa2 rating incorporates two notches of uplift on its standalone credit quality, which is expressed as a BCA of a1, reflecting our assessment of a strong probability of potential extraordinary support from its owners should this be needed.

Our assessment of strong level of expected systemic support to Alliander reflects the strategic importance of the company and its assets to the regions in which it operates. Although the ownership of Alliander is relatively fragmented among 58 provinces and municipalities, we believe the shareholders would be capable and motivated to act in conjunction with one another in case of need. Furthermore, 76% of Alliander's shares is concentrated in relatively small number of provinces and is owned by the 4 largest shareholders.

Our assessment of very high level of 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 and have a high number of common drivers of credit quality.

Ratings

Exhibit 8

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

Source: Moody's Investors Service

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