

**Rating Action: Moody's downgrades Alliander's long term ratings to Aa3, affirms P-1 rating; stable outlook**

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Paris, June 09, 2021 -- Moody's Investors Service ("Moody's") has today downgraded Alliander N.V.'s (Alliander) long-term issuer ratings and senior unsecured ratings to Aa3 from Aa2. Concurrently, the agency downgraded Alliander's senior unsecured MTN program rating to (P)Aa3 from (P)Aa2, the company's standalone Baseline Credit Assessment (BCA) to a2 from a1 and the junior subordinate rating on the EUR500 million basket C hybrid, issued by Alliander in 2018, to A3 from A2. Moody's has affirmed Alliander's Prime-1 short-term issuer rating. The outlook is stable.

The rating action follows the publication of the draft regulatory determination for electricity and gas distribution networks in the Netherlands on 19 April 2021 [1] in which the regulator proposes a significant cut in allowed return in real terms for the 2022-26 regulatory period, and the loosening of Alliander's financial targets included in its financial policy announced on 31 May 2021 [2], a governance consideration under Moody's ESG general principles. The rating action reflects Moody's view that Alliander's cash flow will continue to weaken in the next regulatory period and that, under the amended financial policy, Alliander will be unlikely to maintain a credit profile commensurate with a Aa2 rating.

**RATINGS RATIONALE**

**RATIONALE FOR RATINGS DOWNGRADE**

The downgrade of the ratings reflects the downgrade of the BCA of Alliander to a2 from a1.

The change in BCA, Moody's assessment of the company's stand-alone credit quality, reflects the rating agency's expectation that Alliander's financial metrics will weaken over the next regulatory period starting in 2022. Funds from operations (FFO) will be relatively stable between €650-700 million on average as the proposed cut in allowed return by 180 basis point in real terms between 2021 and 2022 will be mitigated by the move to a nominal allowed return and accelerated depreciation of 1.2x for gas distribution, and the increase in the regulated asset base. This stabilisation in operating cash flow, combined with the increase in capital investments over the next decade to accommodate the energy transition in the Netherlands, will lead to an increase in net debt.

Alliander's amended financial policy as of 31 May 2021 includes a loosening of its financial targets. In particular, the company's target FFO / net debt metric (as defined by the company) was changed to 15% from 20% and the company's target credit rating was changed to a solid A final rating from a solid A rating on a standalone basis. In Moody's view, the change in financial policy reflects that the company will be less likely to put in place measures to counteract the effect of the decrease in allowed returns and increasing capex on financial metrics.

Alliander's a2 BCA continues to reflect (1) its low business risk as the monopoly provider of electricity and gas distribution network services within its service area; (2) the stable and predictable cash flows, generated under a well-established and transparent regulatory framework; and (3) the company's strong financial profile, with very modest leverage (as measured by Net Debt / Fixed Assets) compared to other European networks.

Alliander's Aa3 ratings incorporate two-notches of uplift from its stand-alone credit quality, reflecting the strong probability of extraordinary financial support being provided its owners, the largest of which is the Province of Gelderland with a 45% shareholding, if this was ever needed.

**RATING OUTLOOK**

The outlook is stable, reflecting Moody's expectation that Alliander will maintain financial metrics in line with the ratio guidance for the Aa3 rating level in the next regulatory period such that FFO / net debt is above the mid-high teens and Net debt / fixed assets is below the low 50s, both in percentage terms.

**FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS**

A rating upgrade is unlikely in the near term considering the significant decrease in allowed returns proposed by the Dutch regulator and the increasing capital investment needed in the context of the energy transition.

A rating downgrade could be triggered if Alliander fails to maintain the following minimum credit metrics: funds from operations (FFO)/net debt in the mid-to-high teens and net debt/fixed assets no higher than the low 50s, both in percentage terms.

The Aa3 rating could also be subject to downward pressure if the credit quality of the municipalities and provinces owning Alliander were to significantly weaken or if Moody's assessment of extraordinary support weakened.

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 3.2 million electricity and 2.5 million gas connections and it has a combined market share of 35% in the Netherlands.

The methodologies used in these ratings were Government-Related Issuers Methodology published in February 2020 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1186207](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207), and Regulated Electric and Gas Networks published in March 2017 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1059225](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1059225). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1263068](http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1263068).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates

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#### REFERENCES/CITATIONS

[1] Autoriteit Consument & Markt -- Draft Method Decision electricity distribution networks 2022-26: <https://www.acm.nl/nl/publicaties/ontwerpmethodebesluit-regionaal-netbeheer-elektriciteit-2022-2026> , and gas distribution networks 2022-26: <https://www.acm.nl/nl/publicaties/ontwerpmethodebesluit-regionaal-netbeheer-gas-2022-2026>, 19 April 2021

[2] Alliander: <https://www.alliander.com/en/investors/financial-policy/>

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