STANDARD
&POOR'S

Global Credit Portal®
RatingsDirect®

May 24, 2012

Summary:

Alliander N.V.

Primary Credit Analyst:
Mark J J Davidson, London (44) 20-7176-6306; mark_j_davidson@standardandpoors.com

Secondary Contact:
Karin Erlander, London (44) 20-7176-3584; karin_erlander@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:
Alliander N.V.

Credit Rating: A+/Positive/A-1

Rationale

The ratings on Dutch electricity and gas distribution network company Alliander N.V. reflect Standard & Poor's Ratings Services' view of the company's "excellent" business risk profile and "intermediate" financial risk profile.

In our opinion, key factors supporting the ratings are Alliander's low-risk regulated electricity and gas distribution network businesses, stable and predictable operating cash flow, high-quality network assets, and strengthened financial profile due to tariff increases for the 2011-2013 regulatory period.

Key rating constraints, in our view, are regulatory reset risk in 2014; Alliander's exposure to incentive-based regulation that can impose challenging efficiency requirements; the potential for further consolidation in the Dutch energy network sector, in which we would anticipate Alliander to take a leading role; and counterparty and liquidity risks related to remaining cross-border lease agreements.

S&P base-case operating scenario

In the 12 months to Dec. 31, 2011, Alliander reported a healthy 18.1% year-on-year increase in operating profit, to €398 million. This mainly resulted from the approved tariff increases in electricity and gas distribution for the 2011-2013 regulatory period, which was only partly offset by higher depreciation charges on Alliander's networks.

The tariff increases have positively affected the earnings of all energy distribution network companies in the Netherlands, and provide good visibility until the current regulatory period ends in December 2013. Alliander's EBITDA margin increased to 41% in 2011 from 37% in 2010, and in our base-case operating scenario we anticipate that the margin will remain stable at about 40% in 2012 and 2013.

At the beginning of 2012, Alliander began the statutory roll-out of smart gas and electricity meters required by the Dutch government. The initial phase of the roll-out program will be relatively small in scale, and the Dutch energy regulator has confirmed that the costs will be covered by the regulated tariff. That said, Alliander anticipates that roll-out costs will amount to a significant €60 million-€100 million a year until 2020.

S&P base-case cash flow and capital-structure scenario

In our base-case scenario, we anticipate that Alliander's Standard & Poor's-adjusted funds from operations (FFO) to debt will stay above 30% in 2012, but might fall to about 25% in 2014, when the next regulatory period begins. The company's credit metrics are supported by its moderate capital investment requirements over the period, which we believe can be funded to a large extent with internal sources. Our forecasts exclude the effect of any potential acquisitions, adverse regulatory interventions, or extraordinary returns to shareholders. In this respect, we note that Alliander's financial policy includes a number of minimum financial ratio requirements. These include FFO to debt of more than 20%, which is lower than the company's projections and our base case.

Alliander's adjusted ratio of FFO to debt improved to 33.2% in 2011, from 27.4% in 2010, due to the increase in net profits and a moderate reduction in adjusted debt. Adjusted debt to capital fell to 37.2% in 2011, from 39.3%

the previous year. We consider both these ratios to be strong for the rating, resulting in significant headroom within our guideline ratios.

Alliander's strong credit metrics are further supported by proceeds from a €500 million issue of hybrid securities in November 2010, of which it has retained a material portion. We net unrestricted cash and marketable securities, including the hybrid proceeds, from debt. Alliander issued the securities to increase its financial flexibility, in part due to the ongoing consolidation of the distribution network sector in the Netherlands. We understand from Alliander that no mergers or acquisitions are imminent, however.

Liquidity

The short-term rating is 'A-1'. We view Alliander's liquidity as "strong" under our criteria, and calculate that liquidity sources should exceed liquidity needs by about 1.5x over the next 12 months.

As of Dec. 31, 2011, we estimate liquidity sources in the next 12 months of about €1.7 billion. These include:

- Unrestricted cash and equivalents of €531 million.
- An available €600 million under the undrawn committed bank facility maturing on July 15, 2016.
- FFO of about €550 million.

On the same date, we estimate Alliander's liquidity needs over the subsequent 12 months to be about €1.1 billion, comprising:

- Short-term debt maturities of €509 million.
- Capital expenditures of about €480 million.
- Dividends of about €110 million.

Outlook

The positive outlook reflects our view that Alliander will continue to report robust cash flow-based debt coverage ratios over the medium term, supported by healthy tariff increases in the 2011-2013 regulatory period. We would consider a one-notch upgrade to 'AA-' if, following discussions with management, we believe that the company is able to sustainably report adjusted FFO to debt of about 25%, while maintaining an unchanged business risk profile.

We would likely revise the outlook to stable if we believed that the company was likely to recapitalize its balance sheet to be in line with its publicly stated FFO to debt minimum ratio requirement of 20%--either through an extraordinary dividend distribution, negative regulatory intervention, or further sector consolidation in The Netherlands.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Principles Of Corporate And Government Ratings, June 26, 2007

Additional Contact:

Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

The McGraw·Hill Companies