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Summary:

Alliander N.V.

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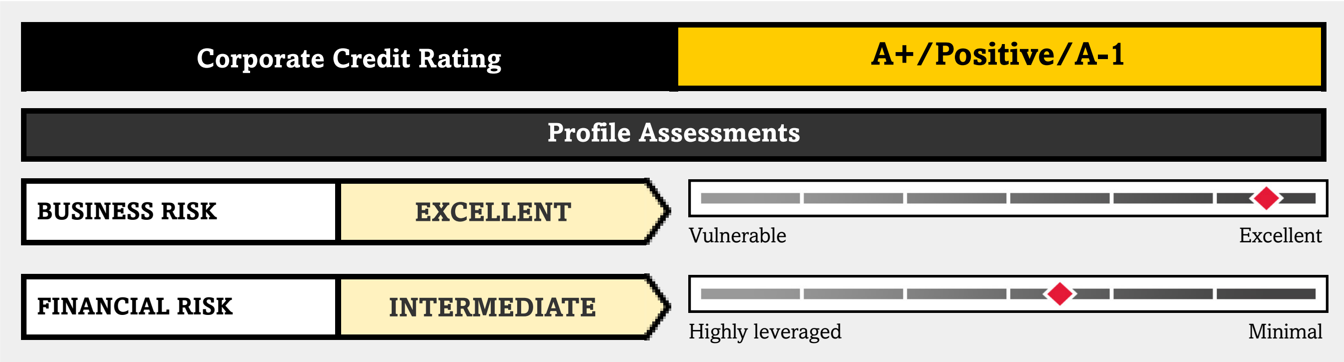
Alliander N.V.



Likelihood Of Extraordinary Government Support

The 'A+' long-term rating on Alliander is based on the company's stand-alone credit profile (SACP), which we assess at 'a+', and on our opinion that there is a "moderate" likelihood that its owners would provide timely and sufficient extraordinary support in the event of financial distress. In accordance with our criteria for government-related entities (GREs), our view of a "moderate" likelihood of extraordinary ownership support is based on our assessment of Alliander's:

- "Important" role, given its strategic importance to the provinces and municipality owners, as the monopoly provider of gas and electricity distribution services in its license areas; and
- "Limited" link to the owners, given the dispersed ownership structure. Despite this, most of the smaller shareholders, primarily municipalities, have historically been connected to the provinces, which are the larger shareholders, in terms of geography and administration.

Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• More than 95% of operating profit derived from stable, regulated revenues • Solid market position and monopoly position in service areas • Strong operational performance of networks • Regulatory reset risk	• Stable and predictable operating cash flows within regulatory periods • Conservative financial policy and strong debt coverage ratios • Risk associated with remaining cross-border leases.

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Outlook: Positive

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 tariff increases in the 2011-2013 regulatory period.

Upside scenario

We would consider a one-notch upgrade to 'AA-' if 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 anticipate increasing clarity on future credit metrics as details are confirmed regarding tariffs in the 2014-2016 regulatory period.

Downside scenario

We consider a downgrade as unlikely in the near term, as reflected in the current positive outlook.

We would consider revising the outlook back to stable, however, if we believe that Alliander's adjusted FFO-to-debt ratio will be less than 25% over an extended period. This could occur, for example, as a result of the regulatory reset in 2014, further sector consolidation in The Netherlands, or if Alliander were to recapitalize its balance sheet to be in line with its publicly stated FFO-to-debt minimum ratio requirement of 20%.

Standard & Poor's Base-Case Scenario

Assumptions

- Revenues and FFO increase in 2013 due to approved tariff increases, and decline in 2014 due to current estimates for 2014-2016 regulatory period.
- Moderately negative discretionary cash flows after capex and dividends result in gradually rising debt levels.
- Solid operating margins support strong interest cover ratios.

Key Metrics

	2012A	2013E	2014E
FFO/Debt	30.2%	27%-37%	20%-30%
EBITDA margins	40.3%	35%-45%	30%-40%
FFO interest coverage	6.2x	7x-8x	5x-6x

*Fully Standard & Poor's-adjusted. A--Actual. E--Estimate.

Business Risk: Excellent

Our view of Alliander's excellent business risk profile reflects the company's natural monopoly status in its license areas, its low-risk regulated electricity and gas distribution network businesses, and its high quality network assets. The majority of Alliander's activities, including its electricity and gas tariffs, are regulated by the Dutch Ministry of Economic Affairs and the Dutch regulator, ACM. These strengths are partly offset by regulatory tariff reset risk every third year (the next regulatory period starts on Jan. 1, 2014); exposure to incentive-based regulation that can impose challenging efficiency requirements; and the potential for further consolidation in the Dutch energy network sector, in

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which we anticipate Alliander will take an active part. However, it is possible that consolidation will take the form of asset swaps or bolt-on acquisitions, with limited financial outlay on behalf of Alliander.

Our base-case operating scenario assumes that Alliander will report higher EBITDA in 2013 due to tariff increases, but a moderate decline in EBITDA in 2014, when the next regulatory period begins, based on cost developments in the current regulatory period.

Financial Risk: Intermediate

We view Alliander's financial risk profile as intermediate because of its currently strong debt coverage ratios, with adjusted FFO-to-debt and debt-to-EBITDA remaining in the region of 30% and 2.5x, respectively, to the end of the current regulatory period in 2013. We anticipate a weakening in these ratios from 2014, due to lower tariffs in the next regulatory period, and gradually rising capex, which may result in moderately negative discretionary cash flows. Alliander has a conservative financial policy, in our opinion, with specific minimum ratio thresholds that support the continuation of a strong liquidity position. Alliander has some remaining exposure to cross-border leases, but liquidity risk is offset by dedicated cash balances and a committed revolving credit facility serving as a backup facility.

Liquidity: Strong

Alliander has "strong" sources of liquidity to cover its needs over the next 12 months, in our view. We expect that the company's sources of liquidity in the next 12 months will exceed its uses by 1.5x or more, the minimum threshold for a "strong" designation under our criteria.

Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash and equivalents of about €355 million; • €600 million available under the undrawn committed bank facility maturing on July 13, 2018; and • FFO of about €550 million.	• Short-term debt maturities of only €6 million; • Net capital expenditures of about €500 million, including smart meters; and • Dividends of about €110 million.

Related Criteria And Research

- Management and Governance Credit Factors for Corporate Entities and Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 17, 2012
- Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers, May 15, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

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- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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