

**Rating Action: [Alliander N.V.](#)**

**Moody's assigns (P)A3 to Alliander's Perpetual Capital Securities (Netherlands)**

London, 27 October 2010 -- Moody's Investors Service has today assigned a provisional (P)A3 rating to the proposed Perpetual Capital Securities ("Hybrid") of Alliander N.V. ("Alliander"), the largest owner and operator of electricity and gas network in the Netherlands. The rating outlook is stable. The size and completion of the Hybrid remain subject to market conditions.

**RATING RATIONALE**

The assigned (P)A3 rating is three notches below Alliander's Aa3 senior unsecured issuer rating, reflecting (i) the proposed securities' ranking in liquidation *pari passu* with the holders of preference shares, which are junior to the claims of all unsubordinated and subordinated creditors of the issuer; (ii) the issuer's option to defer interest payments on a cumulative basis if no dividends on ordinary and preferred shares have been paid in the preceding six months; and (iii) Moody's assumption that this type of instrument has a lower probability of support from Alliander's owners (i.e. the Dutch provinces and municipalities), compared to the company's senior debt. (Alliander falls within the scope of Moody's rating methodology for Government Related Issuers.)

Moody's issues provisional ratings in advance of the final sale of securities, and these ratings only represent Moody's preliminary opinion. Upon a conclusive review of the transaction and associated documentation, Moody's will endeavour to assign a definitive rating to the securities. A definitive rating may differ from a provisional rating.

As the Hybrid rating is positioned relative to another rating of Alliander, a change in either (i) the relative notching practice or (ii) the senior unsecured rating of Alliander could impact the Hybrid rating. Negative pressure would develop on the Alliander's senior unsecured rating should its credit metrics materially divert below minimum levels set within its financial policy: FFO interest coverage at or above 3.5x and FFO/net debt above 20% on a sustainable basis, whether as a result of a significant increase in indebtedness above the forecast levels or weakening of cash flow generation. Conversely, upward pressure could be exerted on the rating if Alliander consistently achieves high ratios well above the credit metrics set by the company within its financial policy and incorporated in its business plan.

Alliander's ratings were assigned by evaluating factors relevant to its standalone credit profile, such as: (i) the low-risk business profile of Alliander's domestic electricity and gas regulated distribution network operations, which generate over 90% of the group's earnings and cash flows; (ii) the well-defined, transparent, but strongly cost-efficient-oriented Dutch regulatory framework, and (iii) the group's conservative financial profile, reflected by its strengthened capital structure and solid liquidity position. Furthermore, the rating incorporates a two-notch uplift to Alliander's stand alone credit profile reflecting: (i) Moody's assumption of strong support from its governmental owners in case of extraordinary need; (ii) assessment of a high level of default dependence, reflecting Alliander's significant exposure to the Dutch economy; and (iii) evaluation of the credit quality of the company's province and municipal shareholders.

The principal methodologies used in rating Alliander were "Regulated Electric and Gas Networks", published in August, 2009 and "Government Related Issuers -- Methodology Update", published in July, 2010. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

Headquartered in Arnhem, Netherlands, Alliander N.V. is the Netherlands' largest owner and operator of electricity and gas networks, servicing 3.0 million customers.

**REGULATORY DISCLOSURES**

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service's information, confidential and proprietary Moody's Analytics' information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

The rating has been disclosed to the rated entity or its designated agents and issued with no amendment resulting from that disclosure.

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Please see ratings tab on the issuer/entity page on [Moodys.com](http://Moodys.com) for the last rating action and the rating history.

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Please see the Credit Policy page on [Moodys.com](http://Moodys.com) for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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