

**Rating Action: Moody's assigns definitive A3 rating to Alliander's 2013 hybrid issuance**

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Global Credit Research - 30 Apr 2015

London, 30 April 2015 -- Moody's Investors Service has today assigned a definitive A3 long-term rating to the EUR500 million 3.25% Reset Perpetual Capital Securities (the "Hybrid"), issued on 27 November 2013 by Alliander N.V. (Alliander); the rating outlook is stable.

**RATINGS RATIONALE**

The A3 rating of the Hybrid is one notch lower than Alliander's a2 standalone Baseline Credit Assessment (BCA), and three notches lower than the company's Aa3 senior unsecured rating. This reflects the features of this security, which is perpetual, deeply subordinated and allows Alliander to opt for coupons deferral on a cumulative basis.

In Moody's view, the Hybrids have equity-like features that allow them to receive basket 'C' treatment (i.e., 50% equity or "hybrid equity credit" and 50% debt for financial leverage purposes). Please refer to Moody's Cross Sector Rating Methodology "Hybrid Equity Credit" (March 2015) for further details ([https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_156230](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_156230)).

Alliander's Aa3 issuer rating 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 conservative financial profile with relatively modest leverage for the sector and solid liquidity position.

The Aa3 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.

The A3 rating for the Hybrid also takes into account Moody's view that in a distressed scenario, support from the owners could entail distinctions between deeply subordinated notes and senior unsecured bonds. This consideration has also been reflected in ratings of deeply subordinated instruments issued by other government related issuers, which are also rated lower than the BCA.

**RATING OUTLOOK**

The stable outlook for Alliander's ratings reflects our expectation that the company will maintain focus on its regulated business and continue to follow its conservative financial policy. Over the medium term, Moody's expects Alliander to continue to exhibit strong financial metrics, albeit lower than historically due to the reduction in allowed returns, with Funds from Operations (FFO)/Net Debt around the low to mid twenties in percentage terms, and RCF/net debt around the 20% mark. Such metrics continues to position the company with some headroom against our guidance for the current rating. However, the company may decide to use some of this headroom for any potential future acquisition on neighbouring networks.

**WHAT COULD CHANGE THE RATING -- UP/DOWN**

As the Hybrid rating is positioned relative to another rating of Alliander, either (1) a change in the senior unsecured rating or (2) a re-evaluation of its relative notching could impact the Hybrid rating.

FFO/Net Debt sustainably above the mid-twenties and RCF/Net Debt permanently above 20% 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. Before considering any upgrade, Moody's would also need to have clarity on the details of the proposed asset swap with Enexis.

To be safely positioned within its current BCA of a2, Moody's expects Alliander to maintain the following minimum credit metrics: FFO interest coverage at or above 3.5x and FFO/Net Debt above 20% on a sustainable basis. Downward rating pressure could also arise if the potential support from Alliander's government shareholders were

to reduce.

## PRINCIPAL METHODOLOGIES

The methodologies used in this rating were Regulated Electric and Gas Networks published in November 2014, and Government-Related Issuers published in October 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

Headquartered in Arnhem, Alliander N.V. is the largest electricity and gas distribution network operator in the Netherlands with approximately 3.1 million electricity and 2.6 million gas connections and it has a combined market share of 37% in the Netherlands.

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