

**Rating Action: Moody's assigns A2 rating to proposed Alliander's hybrid issuance**

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Global Credit Research - 29 Jan 2018

London, 29 January 2018 -- Moody's Investors Service has today assigned an A2 long-term rating to the proposed issuance of Reset Perpetual Capital Securities (Junior subordinated "Hybrid") by Alliander N.V. ("Alliander"); the rating outlook is stable. The size and completion of the Hybrid remain subject to market conditions.

**RATINGS RATIONALE**

The A2 rating of the Hybrid is one notch lower than Alliander's a1 standalone Baseline Credit Assessment (BCA), and three notches lower than the company's Aa2 long-term issuer rating. This reflects the proposed features of the security, which is perpetual, deeply subordinated and allows Alliander to opt for coupons deferral on a cumulative basis.

In Moody's view, the Hybrid has equity-like features that allow it to receive basket 'C' treatment (i.e 50% equity and 50% debt) for the purpose of adjusting financial statements. Please refer to Moody's Rating Methodology "Hybrid Equity Credit" (January 2017) for further details ([https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1051425](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1051425)).

Alliander's Aa2 long-term issuer rating is underpinned by a combination of (1) the low business risk operations of Alliander as a domestic electricity and gas distribution network operator; (2) the well-defined and transparent Dutch regulatory framework; and (3) the company's balanced financial profile, with relatively modest leverage for the sector and solid liquidity position.

The current price control period for both electricity and gas distribution runs from January 2017 to December 2021 and allowed returns will gradually reduce to 3.0% (pre-tax, real) by 2021 from 4% in 2017. Declining allowed returns together with increased investments due to the smart metering roll out will result in a reduction of Alliander's cash flows over the medium term. However, the company has in the past demonstrated an ability to partially offset cash flow pressures through (1) obtaining competitive funding rates and (2) maintaining conservative shareholder distributions. Moody's, thus, expects Alliander to maintain funds from operations (FFO)/net debt above 25%, and retained cash flow (RCF)/net debt in excess of 20% over the medium term, in line with guidance for the current ratings.

The Aa2 rating also incorporates a two-notch uplift from Alliander's stand-alone credit quality, reflecting the likelihood of extraordinary financial support being provided by its owners, the largest of which is the Province of Gelderland with around 45% holding, if this were ever required.

**RATING OUTLOOK**

The stable outlook for Alliander reflects our expectation that the company will maintain focus on its regulated business and continue to follow its balanced financial policy, thus, allowing it to maintain a financial profile in line with the guidance for the current rating.

**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 comfortably above the mid-thirties and RCF/net debt permanently in the high-twenties in percentage terms 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.

The rating could be considered for downgrade if Alliander failed to maintain the following minimum credit metrics: FFO/net debt above 25% on a sustainable basis and net debt/fixed assets below the low forties in

percentage terms. Downward rating pressure could also arise if the potential support from Alliander's local government shareholders were to be seen less likely to be obtained or if their credit strength were to weaken.

The methodologies used in this rating were Regulated Electric and Gas Networks published in March 2017, and Government-Related Issuers published in August 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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

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